HOUSING ACT OF 1952

HEARING

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY

HOUSE OF REPRESENTATIVES

EIGHTY-SECOND CONGRESS

SECOND SESSION

ON

S. 3066

AN ACT TO AMEND DEFENSE HOUSING LAWS, AND FOR OTHER PURPOSES

JUNE 23, 1952

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HOUSING ACT OF 1952

MONDAY, JUNE 23, 1952

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., Hon. Brent Spence (chairman) presiding.

Present: Messrs. Spence, Brown, Rains, O'Brien, McKinnon, Fugate, Wolcott, Talle, Kilburn, Cole, Hull, Nicholson, McDonough, and Betts.

The CHAIRMAN. The committee will be in order.

Our first witness is Mr. Raymond M. Foley of the Housing and Home Finance Administration. We have met to consider S. 3066, which is an act to amend defense housing laws, and for other purposes.

A copy of the bill will be made a part of the record at this point.

[S. 3066, 82d Cong., 2d sess.]

AN ACT To amend defense housing laws, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act be cited as the "Housing Act of 1952".

SEC. 2. Section 217 of the National Housing Act, as amended, is hereby amended to read as follows:

"SEC. 217. Norwithstanding limitations contained in any other section of this Act on the aggregate amount of principal obligations of mortgages or loans which may be insured (or insured and outstanding at any one time) and on the aggregate amount of contingent liabilities which may be outstanding at any one time under insurance contracts, or commitments to insure, pursuant to any section or title of this Act, any such aggregate amount shall, with respect to any section or title of this Act (except section 2), be prescribed by the President from time to time taking into consideration the needs of national defense and the effect of additional insurance authorizations upon conditions in the building industry and upon the national economy: *Provided,* That the dollar amount of the insurance authorization prescribed by the President at any time with respect to any provision of title VI shall not be greater than authorized by provisions of that title: *And provided further,* That, at any time, the aggregate dollar amount of the mortgage insurance authorization prescribed by the President with respect to title IX of this Act, plus the aggregate dollar amount of all increases in insurance authorizations under other titles of this Act prescribed by the President pursuant to authority contained in this section, less the aggregate dollar amount of all decreases in insurance authorizations under this Act prescribed by the President pursuant to authority contained in this section shall not exceed $1,900,000,000: *And provided further,* That $400,000,000 of said sum shall be available only for the insurance of mortgages for which no insurance contract or commitment to insure under this Act was outstanding on June 30, 1952, and which mortgages (1) cover defense housing programed by the Housing and Home Finance Agency in an area determined by the President or his designee to be a critical defense housing area, or (2) are insured under title VIII of this Act, or (3) cover housing intended to be made available primarily for families who are victims of a catastrophe which the President has determined to be a major disaster.".

SEC. 3. (a) Section 301 (a) (1) of said Act, as amended, is hereby amended—

(1) by striking the words beginning with "insured after April 30, 1948" and ending with the colon at the end of the first proviso thereof and inserting the words: "insured under this Act, as amended, or insured or guaranteed under the Servicemen's Readjustment Act of 1944, as amended: *Provided*, That no such mortgage, except defense or disaster mortgages as defined in subparagraph (G) hereof, shall be purchased by the Association unless insured or guaranteed after February 29, 1952, or purchased pursuant to a commitment made by the Association:";

(2) by striking from subparagraph (E) "pursuant to authority contained herein, exceeds 50 per centum of the original principal amount of all mortgages made by such mortgagee" and inserting "after February 29, 1952, pursuant to authority contained herein, exceeds 50 per centum of the original principal amount of all mortgage loans made by such mortgagee that are insured or guaranteed after February 29, 1952";

(3) by striking the proviso in subparagraph (E) and inserting "*Provided*, That this clause (2) shall not apply to (nor shall any terms therein include) any defense or disaster mortgages as defined in subparagraph (G)"; and

(4) by striking from the proviso in subparagraph (G) "which do not exceed $252,000,000 outstanding at any one time, if applications for such commitments were received by the Association prior to December 28, 1951, or, in the case of title VIII mortgages, if the Federal Housing Commissioner issued his commitment to insure prior to December 31, 1951, but subsequent to December 27, 1951, and if such commitments of the Association relate to" and inserting "and prior to July 1, 1953, which do not exceed $1,152,000,000 outstanding at any one time, if such commitments of the Association relate to defense or disaster mortgages. As used in this title III, 'defense or disaster mortgages' means".

(b) Section 302 of said Act, as amended, is hereby amended (1) by striking "$2,750,000,000" and inserting "$3,650,000,000"; and (2) by adding before the period at the end of the first sentence of said section ": *Provided*, That not more than $2,750,000,000 of such total amount outstanding at any one time shall relate to mortgages other than defense or disaster mortgages as defined in section 301 (a) (1) (G)".

SEC. 4. Section 313 of the Defense Housing and Community Facilities and Services Act of 1951 is hereby amended by striking out "$60,000,000" in paragraph (a) thereof and substituting "$100,000,000" and by striking out "$50,000,000" in paragraph (b) thereof and substituting "$100,000,000".

SEC. 5. The first sentence of section 302 (b) of the Defense Housing and Community Facilities and Services Act of 1951 is hereby amended by adding after the words "for reuse at other locations" the words "or existing housing built or acquired by the United States under authority of other law".

SEC. 6. Section 611 of the Act entitled "An Act to expedite the provision of housing in connection with national defense, and for other purposes", approved October 14, 1940, as amended, is hereby amended by inserting "or section 313 of this Act" immediately preceding the parenthetical clause, and by striking out "to this title" at the end of the parenthetical clause and inserting in lieu thereof "thereto".

SEC. 7. The first sentence of section 3 (b) and the first sentence of section 3 (d) of the Alaska Housing Act, approved April 23, 1949, as amended, are hereby amended by striking "$15,000,000" and inserting "$20,000,000".

SEC. 8. Title II of the National Housing Act, as amended, is hereby amended by adding the following new section:

"SEC. 218. In any case where an application for mortgage insurance under section 608 of this Act was received by the Federal Housing Commissioner on or before March 1, 1950, and a commitment to insure was issued by said Commissioner in accordance therewith any mortgagee who, prior to the expiration of such commitment, applied for insurance of a mortgage under section 207 of this Act with respect to the same property or project shall receive credit for all application fees paid in connection with the prior application: *Provided*, That nothing therein shall constitute a waiver of any requirements otherwise applicable to the insurance of mortgages under section 207 of this Act".

SEC. 9. The Secretary of the Treasury is hereby authorized and directed from time to time to credit and cancel the note or notes of the Housing and Home Finance Administrator executed and delivered in connection with loans transferred from the Reconstruction Finance Corporation to the Housing and Home

Finance Agency pursuant to Reorganization Plan Numbered 23 of 1950 (64 Stat 1279), to the extent of the net loss, as determined by the Secretary of the Treasury, sustained by said Agency in the liquidation of defaulted loans. The net loss shall be the sum of the unpaid principal and advances for care and preservation of collateral, together with accrued and unpaid interest on said principal and advances, and all expenses and costs (other than those subject to administrative expense limitations) in connection with the liquidation of defaulted loans, less the amount actually realized by the Housing and Home Finance Agency on account of such defaulted loans.

SEC. 10. (a) The National Housing Act, as amended, is hereby amended—

(1) by adding at the end of section 8 the following new section 9:

"SEC. 9. The provisions of sections 2 and 8 shall be applicable in the several States and Alaska, Hawaii, Puerto Rico, the District of Columbia, Guam, and the Virgin Islands.";

(2) by adding "Guam," after the words "District of Collmbia," in each place where they appear in sections 201 (d), 207 (a) (7), 301 (c) (4), 601 (d), and 801 (f);

(3) by inserting in section 214—

(A) the words "or in Guam" after the word "Alaska" in each place where it appears in said section,

(B) the words "or maxima" after the word "maximum", and

(C) the words "or the Government of Guam or any agency or instrumentality thereof" after the words "Alaska Housing Authority" in each place where they appear in said section;

(4) by adding at the end of section 713 the following new subsection (q):

"(q) 'State' shall include the several States and Alaska, Hawaii, Puerto Rico, the District of Columbia, Guam, and the Virgin Islands."; and

(5) by deleting the words "or Territory" in section 403 (a) and inserting in lieu thereof the words "Territory, or possession".

(b) The Home Owners' Loan Act of 1933, as amended, is hereby amended by adding a comma and "Guam," after the words "Puerto Rico" in section 7 thereof.

(c) The Federal Home Loan Bank Act, as amended, is hereby amended by adding "Guam," after "District of Columbia," in section 2 (3) and after "Virgin Islands," in section 3 thereof.

(d) The Defense Housing and Community Facilities and Services Act of 1951 is hereby amended by adding at the end of section 401 the following: "This title shall be applicable in the several States, the District of Columbia, and the Territories and possessions of the United States."

(e) Section 102b of the Housing Act of 1948, as amended, is hereby amended by adding at the end thereof the following: "Such powers, functions, and duties may be exercised in the several States, the District of Columbia, and the Territories and possessions of the United States."

SEC. 11. Title V of the Housing Act of 1949, as amended, is hereby amended as follows:

(a) In the first sentence of section 511 immediately following the phrase "July 1, 1951" strike the word "and" and insert at the end of the sentence just before the period a comma and the language "and an additional $100,000,000 on and after July 1, 1953.

(b) In section 512, (i) strike "and 1952" and insert "1952, and 1953", and (ii) strike "and $2,000,000" and insert "$2,000,000 and $2,000,000".

(c) In section 513, strike "and $10,000,000 on July 1 of each of the years 1950, 1951, and 1952" and insert "$10,000,000, and $10,000,000 on July 1 of each of the years 1950, 1951, 1952, and 1953".

SEC. 12. The first paragraph of subsection (c) of section 5 of the Home Owners' Loan Act of 1933, as amended, is hereby amended by adding at the end thereof the following new sentence: "In addition to the loans and investments otherwise authorized, such associations may purchase, subject to all the provisions of this paragraph except the area restriction, loans secured by first liens on improved real estate which are insured under the provisions of the National Housing Act, as amended, or insured as provided in the Servicemen's Readjustment Act of 1944, as amended."

Passed the Senate May 23 (legislative day, May 12), 1952.

Attest:

LESLIE L. BIFFLE, *Secretary.*

The CHAIRMAN. Mr. Foley, you may proceed.

STATEMENT OF RAYMOND M. FOLEY, HOUSING AND HOME FINANCE ADMINISTRATOR; ACCOMPANIED BY B. T. FITZPATRICK, DEPUTY ADMINISTRATOR AND GENERAL COUNSEL

Mr. FOLEY. Mr. Chairman, I have a rather full discussion of the bill in written form which I would like to put in the record, if I may.

The CHAIRMAN. The statement may be put in the record in full and you may comment on it as you please.

Mr. FOLEY. Because of the shortness of time, I shall try to be very brief. I have with me our Deputy and General Counsel, Mr. Fitzpatrick and various members of the staff from the Office of the Administration, the Federal National Mortgage Association and from the Federal Housing Administration who will be available for any questions that may arise.

(The statement above referred to is as follows:)

STATEMENT OF RAYMOND M. FOLEY, HOUSING AND HOME FINANCE ADMINISTRATOR, BEFORE THE HOUSE COMMITTEE ON BANKING AND CURRENCY ON S. 3066, EIGHTY-SECOND CONGRESS

Mr. Chairman and members of the committee, I appreciate the opportunity to appear before your committee and preesnt, for your consideration, testimony in support of S. 3066.

INTRODUCTION

The provisions of S. 3066 are designed principally to carry out effectively the objectives of the Defense Housing and Community Facilities and Services Act of 1951. That legislation, which was enacted last year, provided the legislative framework for assisting the provision of housing and community facilities and services required to meet the needs of in-migrant defense workers and military personnel in critical defense housing areas.

SECTION 2—ADDITIONAL FHA MORTGAGE INSURANCE AUTHORIZATIONS

Section 2 of S. 3066 would increase the FHA mortgage insurance authorization. Section 217 of the National Housing Act, as amended (which was added by the Defense Housing and Community Facilities and Services Act of 1951), authorized an aggregate of $1½ billion of additional mortgage obligations to be insured under the new defense housing title (title IX) of the National Housing Act, and under older titles of the act. Authority to release the $1½ billion additional FHA insurance authorization was vested in the President who could, within the total amount authorized, prescribe the amounts to be allocated to different titles of the act.

The report of your committee indicated that the purpose of the provision was to provide a more flexible arrangement for handling the necessary authorization for FHA mortgage insurance programs than could be accomplished if the Congress had sought to provide specific authorizations for each of the FHA programs separately. Since it was not possible to determine accurately the extent to which the special title IX insurance would be used, and the extent to which the use of title IX would result in corresponding reductions in the use of other titles, the Congress quite properly felt that a much smaller increased authorization could be provided on a consolidated basis, than if separate and specific authorizations large enough to meet all possible contingencies were made for each of the different FHA programs.

Under the authority of section 217, the President has allocated $800 million of the consolidated $1½ billion authorization to title II (the regular FHA mortgage insurance title) and $400 million to the recently enacted title IX leaving $300 million of available authorization which may still be allocated.

On the basis of currently revised estimates, these two titles will require $2,100,000,000 of additional authorization through June 30, 1953. Combined with authorization gained through repayments under title II, this would be adequate (at an average mortgage amount of $8,000) to permit the FHA to insure during the 12-month period from June 30, 1952, through June 30, 1953, about 350,000 units under titles II and IX. In addition, it is estimated that FHA commitments to insure mortgages for about 40,000 units of military housing will

be issued under the authority granted by the Maybank-Wherry Act. As to this military housing the present insurance authorization is more than adequate after allowing reserves for possible increases which may be requested by the Military Departments in this high priority defense program.

In order to provide the additional authorization needed to carry out FHA operations under titles II and IX through June 30, 1953, S. 3066 amends section 217 of the National Housing Act in two respects. First, the present section 217 authorization is increased by $400 million. Second, it authorizes the President to recapture existing insurance authorizations under existing titles of the National Housing Act where the full amount of such existing authorizations are not needed immediately, and to reallocate such recaptured amount to those titles where there is an immediate need for additional insurance authorization. To the extent that the President reduces the authorization for any one FHA program, he would be authorized to prescribe a corresponding increase in other FHA insurance programs.

While S. 3066 provides an additional FHA mortgage insurance authorization of $400,000,000, it provides that it may be used only for mortgages on defense, military, or disaster housing insured after June 30, 1952. This would result in very cumbersome and costly accounting and administrative procedures. Accordingly, I strongly recommend that the proviso beginning on line 23 on page 2 and ending on line 8 on page 3 be eliminated from S. 3066.

It is expected that up to June 30, 1953, about $1,600,000,000 could be recaptured from existing FHA authorizations where their full amount is not required immediately for operations during that period. Thus, the two changes made by S. 3066 in section 217 would, taken together, provide approximately the total additional authorization of $2,100,000,000 which it is estimated will be needed by June 30, 1953, for operations under titles II and IX. With the flexibility thus provided by the Congress, this increase can be accomplished with a net increase of $400 million over the total existing FHA insurance authorizations. At the same time, out of unused existing FHA authorizations for programs other than titles II and IX, there would be left about $400 million available for Maybank-Wherry Act housing and about $550 million for mortgage insurance under sections 8, 609, 610, and 611, and title VII.

SECTION 3—FNMA MORTGAGE PURCHASING AUTHORITY AND COMMITMENTS

General comment

At the outset I think it most important to note that the general effect of the provisions of this bill with regard to FNMA is restrictive upon its long-range operation. This I believe to be consistent with the intent of Congress at the time of transfer of FNMA to the Housing Agency in 1950—and with the general purpose of Congress in the establishment of FNMA. While authority to make advance commitments and increased authorization therefor would be provided, they would be strictly limited in application to emergency types of loans, and also limited in time of availability. Further, while some additional funds would be released for use in the general housing market, they, and all subsequent use of the $2,750,000,000 authorization to purchase mortgages in that field would be subject to new restrictions as to eligible base date and percentage of loans made by a lender that may be sold to FNMA. In my opinion, this is a wise course, since it further evidences intention of the Government to rely upon private enterprise and private resources to meet our general housing needs wherever possible.

In my testimony before this committee during previous years, I have indicated that the FNMA advance commitment authority should not be used as a primary source of funds for private housing, and I still hold to this view. At this time, however, we are faced with the fact that, if badly needed defense housing is to be speedily provided by private builders, there is no other available alternative to the use of advance commitments for this purpose. Much of this housing has already been delayed too long, and there is no real prospect of the mortgage market changing in sufficient time and to such an extent as to make an adequate supply of mortgage funds available to meet defense needs promptly. There can be no question but that the use of this additional commitment authority, in sufficient amount, will result in construction of the great bulk of needed defense housing.

Need for additional purchase authorization and advance commitment authority

Last year, FNMA "set aside" $600 million for the purchase of mortgages on defense, military, and disaster housing, which sum was sufficient to cover all of

these types of housing consisting of 75,000 units, programed or committed from March 1, to November 21, 1951. The assurance given by FNMA that funds would be available to purchase the mortgages on these houses when completed was the maximum assistance that could then be given, in view of the fact that FNMA did not have authority, at that time, to make advance commitments to purchase anv eligible mortgages.

In September 1951, the Defense Housing and Community Facilities and Services Act of 1951 gave limited authority to FNMA to make advance commitments to purchase mortgages on defense, military, and disaster housing in the amount of $200 million. This authority expired on December 31, 1951. Practically all of this $200 million was used for defense, military, and disaster housing covered by the $600 million "set aside" fund, thus reducing the uncommitted amount of this fund to about $400 million.

In addition, Public Law 309, approved last April, authorized FNMA to make advance commitments to purchase mortgages for which applications were received by the association prior to December 28, 1951. About $38 million of the defense housing covered by the $600 million "set aside" fund is covered by Public Law 309, thus further reducing the uncommitted amount of this fund to $362 million.

The advance commitment authorization of $900,000,000 contained in S. 3066 would be sufficient to cover the balance of the housing covered by the "set aside," and about 40 percent of the defense, military, and disaster housing to be programed during the period from November 21, 1951, to December 31, 1952.

During the period beginning November 21, 1951, and terminating December 31, 1952, about 118,000 additional units of defense housing, along with about 5,000 additional units of disaster housing, will probably be programed, and insurance commitments for about 40,000 additional units of military housing will probably be issued by the FHA under the Maybank-Wherry Act—a total of 163,000 units. At an average mortgage amount of $8,000 per unit, and assuming that about 40 percent are to be covered, $538 million advance commitment authority would be required for that purpose.

The bill also would authorize FNMA to make advance commitments to finance the balance of the 75,000 units of programed defense housing and military and disaster housing for the period from March 1 to November 21, 1951, and to make the sum of $362 million (equal to the uncommitted amount of the "set aside" fund) available therefor. This balance now amounts to about 45,000 units. Two major purposes would be accomplished by these provisions of the bill:

First, there appears to be no other practical way at this time to assure the availability of mortgage financing for early starting of these 45,000 units of needed defense housing, and, without such advance commitments, its construction will be delayed still further. The assurance heretofore given by FNMA that the "set aside" fund would be made available to purchase mortgages on this defense and military housing when its construction was completed, has not been enough to make available sufficient mortgage financing for this housing.

Second, the $362 million uncommitted balance of the "set aside" fund which—as I will explain—would be released as a result of the increase in FNMA's authorization could then be used for regular over-the-counter purchase of eligible nondefense VA and FHA mortgages. On April 2, 1952, the available funds of FNMA not in the "set aside" were exhausted and on that date FNMA therefore discontinued over-the-counter purchases of eligible nondefense VA and FHA mortgages. If the uncommitted balance of "set aside" funds is released, it can be made available to support the GI home-loan program.

The bill provides that the authority to make advance commitments extends to June 30, 1953. This is necessary so as not to preclude assistance for defense housing programed late in 1952. Also the increase in the present purchase authorization of FNMA is made available only for the purchase of mortgages on defense, military, and disaster housing either by advance commitments or by over-the-counter purchases. No part of this additional purchase authorization is to be available for the purchase of nondefense VA and FHA mortgages, or for the purchase of mortgages on military or defense housing for the period prior to March 1, 1951. For these purchases FNMA would be restricted to the use of the amount released from the "set aside" fund, plus such other funds as may become available from the sale of its mortgages and from repayments on mortgages held in its portfolio. Such sales and repayments are currently about $8 million a month.

Although it is difficult to predict the future of the mortgage market, even a moderate improvement in the market should result in the purchase by private

investors of some of the defense and military housing mortgages covered by FNMA advance commitments under this proposed change. It is therefore my hope that the entire $900,000,000 additional purchase authority provided in S. 3066 would not be used in actual purchases.

Amendment of the provisions limiting FNMA purchases to 50 percent of eligible mortgages originated by one lender

Under the law the FNMA is restricted generally from purchasing mortgages from one lender in excess of 50 percent of all mortgages made by that lender which are otherwise eligible for purchase by FNMA. However, those provisions exempt from such purchase restriction mortgages on military housing insured under the Maybank-Wherry Act and mortgages guaranteed under the Servicemen's Readjustment Act. There is no similar exemption for programed defense housing insured by FHA under the defense housing title—title IX—of the National Housing Act.

The bill would change the present law to limit exemptions from the 50-percent purchase restriction to mortgages which cover programed defense housing, military housing, or housing for victims of a major disaster. Any such mortgages would be exempt, including mortgages guaranteed under the Servicemen's Readjustment Act, but only if they cover programed defense housing or disaster housing.

There has been considerable discussion as to the desirability of including provisions which would permit FNMA to limit the aggregate dollar amount of non-defense housing mortgages which a mortgagee can sell to the association to the amount of mortgages which it has purchased from FNMA. This proposal contemplates that, when a mortgagee purchased—say $5 million of mortgages from FNMA—it would be able to obtain a line of credit which would entitle it, for a period of 1 year from the date of such purchase, to sell to FNMA not exceeding $5 million of new eligible mortgages. While we have some concern as to the increased administrative costs which would be involved in such a system, we would have no objection to the inclusion of such provisions as an additional authority which FNMA could, in its discretion, exercise either alternatively or in conjunction with the 50-percent restriction now provided in S. 3066. We have furnished to the staff of your committee a draft of a provision which would accomplish this purpose.

I understand that others may suggest to your committee that mortgages of $6,000 and under be exempted completely from the 50-percent purchase restriction or any other purchase restrictions which may be included on the aggregate dollar amount of nondefense mortgages which a mortgagee may sell to FNMA. I recommend to your committee, however, that no exemption based merely on the dollar amount of nondefense mortgages be made from such purchase restrictions as are included in the legislation.

Although the volume of mortgages on disaster housing is small, their exemption from the 50 percent purchase restriction is clearly justified. To assist in the relief of emergency housing needs caused by the Kansas-Missouri flood disaster, the Congress, among other legislative measures, authorized the FNMA to make advance commitments to purchase FHA-insured mortgages covering housing intended to be made available for families who were victims of a major disaster. This authority was subject to the December 31, 1951, time limit and the $200 million limitation applicable to all FNMA advance commitments.

A number of lending institutions, many of which were not active in the mortgage-lending field prior to the Kansas-Missouri flood disaster, have committed to make home mortgage loans to flood victims, but were unaware of the provisions which limit the sale of FHA-insured mortgages to FNMA. Many of these institutions have extended themselves to the limit to cooperate in putting the program over, with the erroneous understanding that funds were available with FNMA to purchase all of these loans held by any one bank as soon as the houses were completed and the notes were endorsed by the Federal Housing Administration.

About 2,240 units of disaster housing, with mortgage loans totaling about $16 million made by some 26 lending institutions, are involved. While the amounts involved are relatively not large, it is a matter which could result in considerable and serious difficulty for many of the particupating lending institutions if the present 50 percent restriction were not eliminated for disaster housing.

In addition, to the extent that the current flood disasters in the Midwest require additional housing to be programed to meet the needs of families who lose their homes as a result of the flood, it would appear desirable that the requirement that only 50 percent of eligible mortgage loans could be sold to FNMA should not apply in the case of such loans as are made to assist families who are victims of the more recent flood disasters.

New base date for eligibility of nondefense mortgages for FNMA purchase

Under existing law, any mortgages otherwise eligible for purchase by the FNMA out of available funds may be purchased if insured or guaranteed at any time after April 30, 1948. Many lending institutions have large holdings of nondefense mortgages which could, if funds are available, be purchased by the FNMA under that provision. To conserve the limited amounts which would be available to FNMA for the over-the-counter purchase of nondefense mortgages, subsection (a) (1) of section 3 of the bill would change the April 30, 1948, date to February 29, 1952, except for mortgages on defense, military or disaster housing. Thus, except for mortgages on defense, military or disaster housing (and except of course for mortgages for which purchase commitments have already been made), mortgages insured or guaranteed prior to March 1, 1952, would be ineligible for FNMA purchase.

Although this subsection is designed to restrict FNMA purchases of nondefense mortgages generally to those insured or guaranteed at a future date, the use of the earlier date February 29, 1952, would seem desirable to make eligible those mortgages which have been insured or guaranteed in the very recent past, and which are therefore more likely to have been made in contemplation of early sale to FNMA. For similar reasons, a corresponding change is made by subsection (a) (2) in the base date for computing the 50 percent restriction on mortgage purchases which I have just discussed.

It should be noted also that even under the most favorable circumstances, funds available to the FNMA for the purchase of nondefense mortgages would necessarily be limited in the foreseeable future. Indeed, there have been no funds available for this purpose since April 2. The bill therefore provides, in effect, that the relatively small amounts which would be released for this purpose shall be used for the purchase of future, rather than past, mortgages.

Repeal of limitation on amount of deposit or fee

Under existing law, the FNMA is prohibited from requiring or charging a deposit or fee for the purchase of a mortgage in excess of 1 percent of the original principal obligation of such mortgage. Subsection (a) (1) of section 3 would repeal that restriction, allowing the amount of such deposit or fee to be determined by the FNMA. This is desirable because of the need for flexibility in fixing such fees and deposits.

The FNMA now requires a deposit of 1 percent in the case of a commitment to purchase a mortgage on sales housing and ½ of 1 percent in the case of a mortgage on multifamily housing. The portion of the deposit in excess of ½ of 1 percent is returned if the mortgage is actually sold to FNMA; and the portion in excess of ¼ of 1 percent is returned if an eligible mortgage is produced and is either sold elsewhere or held by the lender. The portion of the deposit retained as a fee serves to help pay the processing costs of FNMA and constitutes a charge for the commitment which has a definite value to the lender. The appropriate fee to be charged at any one time depends on varying factors such as the fees charged in the private secondary market and the need for expanding or contracting the operations of FNMA generally or with respect to any particular class of mortgage or type of housing. In this connection, it is important that the FNMA not be bound by a limitation on fees which might make its operations competitive with a private source of secondary credit. It is also desirable that there be authority to adjust fees where this is necessary, to help restrict commitments and purchases to those cases where the supply of private mortgage funds is most clearly inadequate.

SECTION 4—AUTHORIZING FOR DEFENSE COMMUNITY FACILITIES AND FEDERAL DEFENSE HOUSING

Community facilities and services

Section 4 of the bill would increase the authorization for defense community facilities and services, now contained in title III of the Defense Housing and Community Facilities and Services Act of 1951, from $60 million to $100 million—an increase of $40 million.

Applications for assistance for defense community facilities projects, having a total cost of about $75 million, have already been received from communities in 40 critical defense-housing areas. HHFA assistance required for these projects amounts to about $40 million, or about $1,000,000 per area.

In the 160 critical defense-housing areas first declared, municipalities in 25 areas which have not filed applications for assistance are now preparing them.

A preliminary survey shows that communities in 35 more of these 160 areas will file applications for assistance, making a total of 60 additional areas.

Also, it is estimated that by June 30, 1953, 190 localities will be declared critical defense-housing areas in addition to the first 160, making the total areas so declared 350. Of these 190 additional areas, it is estimated that 90 will require assistance from HHFA for defense community facilities. These 90 new areas plus the 60 additional existing areas to submit applications would make a total of 150 areas requiring HHFA assistance in addition to the areas which have actually filed applications.

Estimates we have made in connection with these 150 areas are based upon the assumption that these areas will contain a smaller number of communities and that a smaller amount of assistance per area will be required than the experience reflected in connection with the applications received. Therefore, the average amount of HHFA assistance required per area for these 150 areas was estimated at $500,000 as contrasted with the $1,000,000 HHFA assistance per area in the case of the first 40 areas. This would require an additional $75 million authorization.

The total amount of authorization thus required for HHFA assistance on defense community facilities for all areas would be $115 million.

In the case of applications covering HHFA assistance for water and sewer lines, experience in connection with applications received indicates that assistance is also required from the Federal Security Agency. That agency, acting through the United States Public Health Service, is responsible under the law for aiding water and sewer treatment plants as distinguished from the water and sewer lines. The amount of this assistance which past experience has shown to be required from the Federal Security Agency is in a ratio of about 33 percent of the amount of HHFA assistance required. About 80 percent of the applications for HHFA assistance received relate to water and sewer lines. This would mean that about $90 million of the $115 million total required HHFA assistance would be for water and sewer lines, and that FSA assistance for the related sewage and water treatment facilities would be about $30 million. In addition, it is estimated that FSA assistance for grants for hospitals would be required in an amount of approximately $25 million. This would bring FSA requirements to a total of about $55 million.

Combining the $115 million required for HHFA assistance for defense community facilities and the $55 million required for the Federal Security Agency, the total required authorization for defense community facilities under title III of the Defense Housing Act of 1951 would be $170 million. On this basis, therefore, the $100 million increase in the present $60 million authorization, as provided in S. 3066 as originally introduced, seemed appropriate.

However, unlike temporary defense housing, where we can make quick assignments to specific military installations, the community facilities part of the program has moved, and is moving, rather slowly. This is due partly to the nature of the projects themselves and partly to the fact that, under the act, we must go through a rather lengthy process of assuring ourselves that the facilities involved cannot be provided without the Federal assistance applied for. In view of the time we have found to be required for the development and processing of applications for community facilities assistance, and the fact that $30 million of the present authorization is still available, we believe that the $40 million additional authorization provided by S. 3066 would be adequate for the present. This would provide sufficient authorization for us to come before the Appropriations Committee early in the next session of the Congress for such appropriation as experience then shows to be necessary.

Federally provided defense housing

Section 4 of the bill would increase the authorization for Federally provided defense housing now contained in title III of the 1951 Defense Housing Act from $50 million to $100 million.

Under that title, temporary defense housing which is suitable for reuse in other locations may be provided by the Federal Government in critical defense housing areas when needed to serve in-migrant defense workers or military personnel. Permanent type public housing may also be provided for this purpose, but only after private enterprise has first been given the opportunity for at least 90 days to indicate—by filing applications for special aids available for building programed permanent housing—that it will meet all or part of the need for permanent units in the defense locality. The present $50 million authorization covers both temporary and permanent defense housing.

Of the present $50 million authorization, $37.5 million has been appropriated—$12.5 million of that total only became available on June 5, 1952. The $12.5 million unused balance of the present authorization, together with an additional $50 million, contingent upon the enactment of $50 million increased authorization contained in S. 3066, is now pending before the House Committee on Appropriations.

Except for a small reserve, the $25 million first appropriated for defense public housing has been obligated. These limited funds could meet only a fraction of the need. Accordingly, it was decided to utilize the funds to provide the greatest possible measure of relief by using the least expensive means and concentrating on the most difficult situations. The sum of $20 million of the $25 million first appropriated was set aside for use at installations of the armed services in accordance with determinations by the Secretary of Defense as to the most pressing military needs. In some areas provision has also been made for housing industrial workers engaged in activities directly related to the national defense.

Assignments which have been made for 26 areas in 16 States total 6,800 housing units, all temporary, for occupancy by Armed Forces personnel and essential defense workers. This total includes over 3,800 trailers, over 1,900 portable dwellings, and about 1,100 temporary Lanham Act units rehabilitated or converted. The estimated average cost per housing unit is about $3,600. For trailers the average is about $3,570, for portable dwellings about $5,200, and for rehabilitated or converted Lanham Act units about $1,400.

An illustration of the kind of condition which has been dealt with may be furnished by the case of Camp Lejeune, N. C., where the Senate Preparedness Subcommittee in 1951 reported an over-all military housing requirement of 14,999 units as against an on-post supply of 1,566 units. Public housing which could be assigned out of the initially appropriated funds to this area upon the recommendation of the Secretary of Defense amounted to only 260 trailers to serve both Camp Lejeune and the Cherry Point Marine Corps Air Station. Similarly, at Camp Polk, La.; where the Senate subcommittee estimated a need for about 3,600 units and where the demand is almost exclusively temporary, only 470 temporary public-housing units could be assigned to the area from those funds.

Temporary defense housing to date has, as stated before, been allocated to 26 areas in 16 States. If funds had been available, allocations could, on the basis of needs made known to us, have been made by last February 15 to a total of over 80 areas in 32 States. In these critical defense housing areas, the defense activities to be served are military installations or private defense industry, or a combination of both. Military installations include air bases, training camps, navy yards, arsenals, ordnance plants, supply and ammunition depots, ordnance testing stations, ordnance and aircraft facilities, service schools, forwarding depots, ports of embarkation and commiuncations facilities. The private defense industries include shipyards, aircraft assembly plants and aircraft component plants, railroad port facilities, power production, copper and cobalt mines and smelting facilities, and other similar types of defense industry. These defense activities are typical of those to be served by the housing program.

As of June 20, 1952, 185 localities had been declared to be critical defense housing areas, and it is expected that a total of 190 localities will be declared critical defense housing areas by June 30, 1952. By June 30, 1953, the expected total is 350. To gage the prospective impact of defense in-migration from now through fiscal 1953, surveys have been made of 175 critical defense housing areas. After allowing for the supply of housing which is expected to be made available to in-migrant defense personnel from all sources other than public defense housing, and after allowing for the public defense housing units assigned in such areas from the $25 million previously appropriated, the total public defense housing deficit among the areas surveyed was estimated to exceed 35,000 units. Approximately 5,000 of these units could be provided from the $12.5 million recently appropriated, plus the remaining $12.5 million now authorized but not appropriated.

In order to keep the estimate of the public housing need down to the minimum number indicated, liberal estimates were made of the number of vacancies which may become available to in-migrant defense personnel in existing housing and in new private housing, including programed defense housing, Maybank-Wherry Act military housing, and also in new housing subject to credit controls.

On the basis of the 35,000 units required for the 175 areas surveyed, and approximately 7,000 units already provided in those areas, it is further estimated that an additional 25,000 to 30,000 units will be required in the other 175 critical defense housing areas which will have been declared by June 30, 1953.

Of this total of 67,000 to 72,000 units of public defense housing needed, only approximately 12,000 (or less than one-fifth of the total need) can be provided out

of the original $50 million authorization contained in title III of Public Law 139. This would leave a deficit of 55,000 to 60,000 units. Further confirmation of this need is demonstrated by the recent requests of the Department of Defense and the three military services for the priority allocation of more than 21,000 units out of the earliest available funds. It should be emphasized that these 21,000 units are needed to serve military installations only and that they do not represent the total needs at such installations but only the most urgent, top priority needs.

It is expected that the average cost per unit of the housing to be provided will be materially higher than under the first $25 million appropriation. It is anticipated that trailers and minimum size portable dwellings will not be used to the same extent that they have been under the vary limited initial emergency program. A considerable number of the dwellings which are expected to be provided where the need is temporary will be demountable houses, designed for long-term use after removal from the original defense sites. Such housing, while more economical in the long run because of its longer life and its salability, is of course more costly initially. Also, some of the houses to be provided in the future may, in accordance with authority contained in the legislation, consist of conventional permanent dwellings.

Even assuming that the average unit cost can be kept as low as $5,200, the 55,000 to 60,000 units would require an additional authorization of about $300 million. An additional authorization under title III for about 50 percent of this amount, or $150 million, would be adequate at this time. I therefore recommend that the additional authorization of $50 million proposed by section 4 of S. 3066 be increased by $100 million.

SECTION 5—USE OF EXISTING FEDERALLY OWNED MASONRY HOUSING TO MEET DEFENSE NEEDS

Section 5 of S. 3066 is a technical amendment to the Defense Housing Act of 1951. It would permit the Housing Administrator to use masonry temporary housing, built by the Federal Government under the Lanham War Housing Act or similar acts, to meet temporary defense needs under title III of the 1951 Defense Housing Act. Adequate authority in this regard exists with respect to federally owned houses of frame construction. The 1951 act authorizes the Housing Administrator to use, for its purposes, any housing under his jurisdiction, but requires that temporary housing be "constructed so as to be available for reuse at other locations." This prevents the use of existing masonry construction to meet temporary defense housing needs.

A number of World War II temporary housing projects were of masonry construction notwithstanding the temporary need, because of the acute lumber shortage in particular localities during World War II. It is, of course, desirable that such existing federally owned housing be used, where possible, to meet defense needs under title III as it saves the much greater cost of providing new structures.

SECTION 6—EXTENSION OF REMOVAL DATE FOR TEMPORARY WORLD WAR II HOUSING

Section 6 of S. 3066 would amend the Lanham War Housing Act so as to permit the President to extend the December 31, 1952, date which is now prescribed in section 313 of that act for the removal of certain limited classes of temporary war and veterans' housing under the jurisdiction of the Housing Administrator. Authority has already been granted to extend this date with respect to the bulk of the temporary war and veterans' housing, but apparently through inadvertence these limited classes of housing were omitted from that authority. As the law is now written, this housing must be removed by December 31, 1952, except where the Housing Administrator finds, after consultations with the local communities, that it is still needed. All such exceptions would have to be reexamined annually and reported to the Congress. The Congress has extended earlier removal dates from time to time, the December 31, 1952, date having been established by an amendment adopted in April 1950, several months before the outbreak of the Korean conflict.

After the outbreak of the Korean conflict, in order to continue temporary housing in use for defense purposes, the Congress enacted section 611 of the Lanham Act, authorizing the President to extend a number of dates by which temporary housing must be vacated and either sold or removed. Section 6 of this bill would merely include the approaching December 31, 1952, deadline in the authority now contained in section 611.

About 35,000 housing units will be affected in the following categories:

1. Veterans' reuse housing not relinquished or transferred to local bodies;
2. Temporary housing relinquished or transferred to local bodies subject to the removal requirements of section 313; and
3. Certain miscellaneous housing units expressly excepted by section 604 from the requirements of title VI of the Lanham Act for vacating and removing temporary housing.

SECTION 7—ALASKA HOUSING AUTHORIZATION

Under the Alaska Housing Act (Public Law 52, 81st Cong.), the Housing and Home Finance Administrator is authorized to purchase, on a revolving basis, bonds or obligations of the Alaska Housing Authority in the amount of $15 million to provide funds for housing construction in the Territory. This authorization is virtually exhausted. Section 7 of S. 3066 would increase the authorization by $5 million.

To date funds have been committed by the Housing Administrator to the extent of approximately $14 million, an additional $1,000,000 having been appropriated only this month. While the program has resulted in the production of a substantial volume of houses, there still exists an acute shortage as reflected in the recent market survey of the Territory completed by this Agency. The present authorization would not permit financing of housing projects presently under consideration by the authority on the basis of applications before it. Housing construction in the Territory, because of the limited building season, necessarily takes a longer time than in the States and thus interim funds are necessarily invested for a longer period than is true in the States. For this reason, even under the most favorable repayment program, the need for additional funds is apparent. Unless an additional authorization is approved, loan applications now pending to finance various housing projects in the Territory will have to be rejected.

I believe there is a need for $10 million beyond the present authorization, or an aggregate of $25 million. The Alaska Housing Authority has stated that within the last 5 months it has been compelled to reject applicants seeking loans substantially in excess of the $10 million because of the unavailability of funds. I therefore recommend that the $5 million increase in section 7 of S. 3066 be increased to $10 million.

SECTION 8—WAIVER OF FHA FEES ON CONVERSION OF APPLICATIONS FROM SECTION 608 TO SECTION 207

Under title VI of the National Housing Act, the title which provided special mortgage insurance aids for World War II housing and veterans' housing, a rental housing mortgage may be insured under section 608 of the act only pursuant to a commitment to insure issued by the FHA on application filed on or before March 1, 1950. Some cases have arisen where the holders of such validly issued commitments have, with respect to the same project, made application to convert the section 608 commitment to insure under section 207 of the act, which is the regular FHA rental housing mortgage insurance section. Technically, such a conversion of insurance with respect to the same project from section 608 to section 207 has to be regarded by the FHA as a new application for which the regular application fees must be paid, resulting in duplicate application fees for insurance on the same project. Section 8 of this bill would merely permit the application fees already paid on account of an application for a section 608 project where the commitment has been issued by FHA to be credited toward the fees due for the section 207 application covering the same property or project.

SECTION 9—CANCELLATION OF HOUSING AGENCY NOTES TO TREASURY ON ACCOUNT OF LOSSES ON LOANS TRANSFERRED TO THE HOUSING AGENCY FROM RFC

Under Reorganization Plan No. 23 of 1950, a number of prefabricated housing loans made by the RFC were transferred to the Housing and Home Finance Agency. The related RFC notes to the Treasury were canceled and the Housing Administrator issued a substitute note for the principal amount of the transferred loans plus accrued interest. At the time of the transfer, a number of the loans were in default and others were not fully covered by collateral, so that the Housing Administrator's note to the Treasury was in excess of the recovery value of the transferred loans. A book reserve of almost $8 million for losses on account of the transferred loans was established at the time of the transfer but no reserve funds were actually transferred to the Housing Administrator. Unlike the RFC,

the Housing Administrator had no accumulated net income from an existing lending program with which to pay losses. The actual process of foreclosing on or liquidating some of the loans indicates that the actual losses on account of the transferred loans will be about $8 million.

Section 9 of this bill is in the nature of a bookkeeping authorization which would provide that the Secretary of the Treasury shall cancel the Housing Administrator's note or notes to the extent of such actual net losses on account of the transferred loans, as determined by the Secretary of the Treasury.

SECTION 10—EXTENSION OF FEDERAL HOUSING LAWS TO THE ISLAND OF GUAM

Amendments are necessary to permit the FHA mortgage-insurance programs and certain other Federal housing aids to be made available in the island of Guam.

The Organic Act for Guam, approved August 1, 1950, had the effect of changing the status of the island from that of a possession of the United States under a naval Governor to that of an unincorporated Territory with its own civilian government. Natives of Guam were made American citizens. However, many of the laws of the United States applicable to the States and other Territories are not applicable to Guam. To study this subject the President last year appointed a Commission on the Applicability of the Federal laws to Guam, which rendered its report and recommendations on July 31, 1951 (H. Doc. No. 212). It recommended, among other things, that the National Housing Act and other Federal laws pertaining to housing be made applicable to Guam.

At the request of the Governor of Guam, the Housing and Home Finance Agency sent a survey team last year to investigate housing conditions and related economic, financial, and construction factors on the island and to make more specific recommendations as to the action to be taken in applying existing Federal housing programs to Guam. Based upon its study of these matters, this survey team made recommendations, in which the Governor of Guam concurred, that FHA mortgage-insurance aids, and the other Federal-housing aids not now available, be made available in Guam in the same manner as in Alaska, and that legislation for this purpose be enacted at the earliest possible time.

Section 10 of this bill would provide this authority. In addition to making FHA programs available, the section would permit the Federal Housing Commissioner to increase the statutory mortgage limits for FHA mortgage insurance purposes by one-half in Guam in the same manner as such limits may now be increased in Alaska. This is essential in view of the high construction costs in Guam caused by the necessity of importing all construction materials and by the scarcity of skilled labor.

The section would also make available to the Territory programs of the Federal National Mortgage Association and the Home Loan Bank Board, including the Federal Savings and Loan Insurance Corporation. Finally, miscellaneous provisions of the Defense Housing Act of 1951 would also be extended to Guam.

The need for housing on the island of Guam is acute. Nearly all housing on Guam was destroyed during World War II, and most of the existing houses are of a temporary character and rapidly falling into disrepair. Housing conditions among the native population are particularly bad. Also, the island contains principal military installations of the United States which have been substantially enlarged in recent years.

There has been an influx of military personnel and civilian employees of the Federal Government which has greatly increased the extent and importance of the housing problem. Housing conditions constitute a prime factor in recruiting these employees of the Federal Government and in recruiting personnel for the government of Guam itself. The island is the farthest outpost of American-owned territory in the Pacific and is becoming a way station in our trade and communications with the Far East. Thus, meeting the housing needs of the island is also very important in terms of our national defense.

SECTION 11—FARM HOUSING

Section 11 of S. 3066 provides for the continuation of the program of loans and grants for farm housing which was authorized by title V of the Housing Act of 1949. The program is administered by the Department of Agriculture, and it is my understanding that the Secretary of Agriculture is filing a statement with your committee regarding the provisions of this section of the bill. While the Department of Agriculture is, of course, in a much better position than the Housing Agency to report to your committee on the actual experience gained by the Depart-

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ment in administering the program during the several years it has been in operation, I do wish to indicate briefly the very real need for continuing the farm housing program authorized by title V of the Housing Act of 1949.

The committee reports on the original 1949 legislation explained the necessity for the program of aids to farm housing, and stressed the fact that seriously substandard housing was to be found on our farms as well as in our cities and that an even higher proportion of farm dwellings than urban dwellings are in bad condition. Also, these committee reports referred to the importance of adequate housing, not only to the health and welfare of our farm families, but also in creating an environment that will attract and hold to the land the people who are best able to utilize our soil resources to meet future needs for agricultural products.

I would like to emphasize that the basic considerations which led to the enactment of the original legislation remain valid today. The continued need for improving farm-housing conditions is made clear by preliminary studies of the 1950 census of housing which show that one farm home in every five is dilapidated. It is also clear that very many farm families need the type of aid made available by this legislation. The Department of Agriculture reports that a very recent survey was made, rating farm houses on a structural basis. Two out of every three of the houses which were rated in the lower third were located on farms each producing less than $2,000 annually from farm crops, livestock, and livestock products.

SECTION 12—FEDERAL SAVINGS AND LOAN ASSOCIATIONS—INVESTMENTS IN FHA- AND VA-AIDED MORTGAGE LOANS BEYOND 50-MILE AREA

This section would add a provision to subsection (c) of section 5 of the Home Owners' Loan Act of 1933, as amended, which concerns the investment of funds of Federal savings and loan associations. The provision added by the bill would, for the purpose of purchase of certain loans, remove the present 15-percent-of-assets limitation on loans beyond a 50-mile area. The limitation would be removed only if the loans purchased are secured by first liens on improved real estate and are insured under the provisions of the National Housing Act, as amended, or insured as provided in the Servicemen's Readjustment Act of 1944, as amended. Such purchases, however, would remain subject to all of the present limitations of subsection 5 (c) except the 50-mile-area restriction.

Because I am well aware of the extremely heavy work schedule of your committee and the limited time available to you, I am most reluctant to add to your problems. However, there are two additional matters which I feel that I must call to your attention and urge that, if at all possible, they be considered by your committee for inclusion in this bill.

Under date of June 19, 1952, I sent to the chairman of your committee a letter transmitting a draft of a bill to conform the provisions relating to payments in lieu of taxes in the Lanham Act to the similar provisions of Public Law 139. Copies of an explanatory statement and justification of that draft bill have been made available to the members of your committee, and, if its provisions meet with your approval, I hope it will be possible to include those provisions in S. 3066.

In addition, under date of June 20, 1952, I sent to the chairman of your committee a letter transmitting three legislative proposals relating to the FHA's insurance programs. These proposals, which I earnestly recommended for favorable consideration, would—

(1) Strengthen and improve the operation of the general reinsurance account under the title II mutual mortgage insurance fund;

(2) Increase by $250 million the title I authorization for property improvement loan insurance; and

(3) Increase by $500 the maximum mortgage amounts for lower-cost sales housing under section 8.

Copies of the June 20, 1952, letter have been furnished to the members of your committee. If the suggestions contained in that letter meet with your approval, I hope it will be possible to include the necessary legislative provisions in S. 3066.

I have been advised by the Bureau of the Budget that the enactment of S. 3066, and the suggested amendment with respect to FHA's general reinsurance account under the title II mutual mortgage insurance fund, would be in accord with the program of the President. I have also been advised by the Bureau of the Budget that there is no objection to the submission of the other amendments which I have recommended to your committee.

HOUSING AND HOME FINANCE AGENCY,
Washington 25, D. C., June 20, 1952.

Re S. 3066, Eighty-second Congress, proposed FHA amendments.

Hon. BRENT SPENCE,
Chairman, Committee on Banking and Currency,
House of Representatives, Washington 25, D. C.

DEAR CONGRESSMAN SPENCE: Enclosed for the consideration of your committee are drafts of three legislative proposals concerning the operations of the Federal Housing Administration. These proposals, which I recommend for favorable consideration by your committee, would—

(1) Strengthen and improve the operation of the title II mutual mortgage insurance fund;

(2) Increase by $250 million the title I authorization for property improvement loan insurance, and

(3) Increase by $500 the maximum mortgage amounts for low-cost housing under section 8.

The enclosed legislative drafts, which consist of amendments to the National Housing Act, are in a form suitable for inclusion as sections 13, 14, and 15 of S. 3066, the Housing Act of 1952, now pending before your committee. A detailed explanation and justification of each of these amendments is set out below.

PROPOSED SECTION 13—AMENDMENT RELATING TO FHA'S MUTUAL MORTGAGE INSURANCE FUND

As you know, title II of the National Housing Act provides the basic authority for the regular, long-range mortgage insurance programs of the Federal Housing Administration. One- to four-family home mortgages insured under section 203 of the title are administered in connection with the mutual mortgage insurance fund, the first of the mortgage insurance funds created by the National Housing Act, as enacted in 1934. I feel that the proposed changes will serve to improve the structure and operation of that fund.

The fund consists of separate group accounts, which are established at the beginning of each calendar year, and of the general reinsurance account. Mortgages which are endorsed for insurance under section 203 in any calendar year are assigned to 1 of 10 possible group accounts, depending upon the underwriting ratings and the maturities of the insurance contracts. Each group account is credited with the fee and premium income from the mortgages assigned to it and is charged with the expenses and insurance losses incurred on account of those mortgages.

The fund is mutual in the sense that mortgagors whose mortgages are assigned to a particular group account participate in a distributive share of the funds of that group account. Participating shares are payable to mortgagors at the maturity of a group account. They are also paid to a mortgagor terminating his mortgage prior to its maturity if no claim for the insurance indemnity is involved in the termination. The amount which is distributed to a terminating mortgagor depends on the funds of his group account at the time of termination of the insurance contract. If the funds of the group account are in excess of the account's required reserves, then the terminating mortgagor receives a pro rata share of that excess.

In addition to providing for the individual group accounts in the mutual mortgage insurance fund, title II of the National Housing Act provides for a general reinsurance account. This account is a secondary reserve to the individual group accounts, providing basic support for the insurance system and furnishing to the Federal Government its major protection against financial loss. Its purpose is to cover any deficits in individual group accounts whose resources are insufficient to meet their own expenses and insurance losses at the maturity of the accounts. The general reinsurance account derives its resources from the individual group accounts. The National Housing Act (sec. 205) provides that 10 percent of the premiums collected by a group account shall be earmarked for transfer to the general reinsurance account at the maturity of the group account.

When the mutual mortgage insurance fund first was established almost 18 years ago, the system of mortgage insurance of which it was a part was entirely new. Our study of the fund suggests that its resources should be further strengthened and has also disclosed several ways in which its operations can be improved. These improvements can be achieved by providing statutory authority for increasing the resources of the general reinsurance account and by providing a more

equitable basis for the distribution of participating shares to terminating mortgagors. Accordingly, the proposed new section of S. 3066 would amend section 205 of the National Housing Act to provide for the following changes:

1. The Federal Housing Commissioner would be authorized to establish a rate for the transfer to the general reinsurance account of not less than 10 percent nor more than 35 percent of the premiums collected hereafter by an individual group account. The section now provides for 10 percent to be so transferred. If the general reinsurance account is to accumulate sufficient resources to cover future possible deficits among individual group accounts, the rate for the transfer of premiums should, within limits, be flexible. With such flexibility, the Commissioner would have the authority to raise the present 10 percent transfer rate in order to increase the resources of the general reinsurance account.

2. The Commissioner would be required to transfer the premiums earmarked for the general reinsurance account semiannually after their receipt. Section 205 now provides for the transfer to take place at the maturity of the group account. The proposed earlier periodic transfers of premiums would serve to increase the resources of the general reinsurance account not only by making these premiums available sooner, but also by crediting the reinsurance account, rather than the group accounts, with the inome from their investment. The average mortgage insured under section 203 has a maturity in excess of 20 years. Thus, under the present law, there is a delay of many years before funds earmarked for the general reinsurance account are actually made available to it.

3. The Commissioner would be required to transfer to the general reinsurance account all premium charges which are collected on account of the prepayment of mortgages, instead of 10 percent of such charges as is now provided. At present, the balance of these prepayment charges is retained in the individual group account. Under the conditions which have prevailed, the balance has become available for distribution to terminating mortgagors as part of their participating shares. This produces inequities between mortgagors terminating at different times in the history of an individual group account since prepayment charges paid by mortgagors terminating earlier are in part distributed to mortgagors terminating later. This factor is also largely responsible for participating shares distributed to terminating mortgagors being often in excess of the total insurance premiums paid by them. By transferring all the prepayment charges to the general reinsurance account, these inequities would be eliminated. The proposed transfer of the prepayment fees to the general reinsurance account would make them available for the benefit of the entire home mortgage insurance system under section 203 of the National Housing Act.

4. Finally, the Commissioner would be required by the proposed new section to limit the shares distributed to terminating mortgagors so that they would never, under any circumstances, exceed the sum of the premiums paid by them. Any amounts in excess of this proposed statutory limit would be transferred to the general reinsurance account at the maturity of the individual group account.

In summary, the proposed new section 13 of S. 3066 would serve to strengthen the mutual mortgage insurance fund by improving the mechanics for husbanding the fund's resources; would thereby furnish additional protection to the Federal Government against financial loss; and would also provide a more equitable basis, as among mortgagors, for the distribution of participating shares.

PROPOSED SECTION 14—INCREASE IN FHA TITLE I AUTHORIZATION FOR PROPERTY IMPROVEMENT LOAN INSURANCE

The proposed new section 14 of S. 3066 would amend section 2 (a) of the National Housing Act, as amended, to increase the title I loan insurance authorization by $250,000,000 (from $1,250,000,000 to $1,500,000,000). This authorization covers insurance of loans, which are generally not secured by mortgages, for the repair, alteration or improvement of existing structures and, in the case of certain small loans, for some types of new construction.

The amendment would also modify section 2 (a) of the National Housing Act to make it clear that the new dollar limitation governing the title I insurance authorization refers to the aggregate of loan amounts advanced to borrowers, exclusive of financing charges. Thus, where the face amount of the loan note is $200, covering $190 advanced to the borrower and a $10 financing charge, under the proposed new section 14, the sum of $190, rather than $200, would be charged against the total insurance authorization. This method of arriving at the available title I authorization would be consistent with all the FHA authorization limitations contained in other titles of the National Housing Act.

The need for an increase in the title I authorization at this time arises from the fact that the present authorization will probably be exhausted during October of this year. Because of the lag between the initiation of title I loans within lending institutions and their completion, the forwarding of periodic reports to the FHA, and the tabulation of information from about 4,600 lending institutions with more than 3,000 branches throughout the United States and its Territories, it will be necessary, under the present statutory limitation, to notify lending institutions on or about August 1 that new title I loans can no longer be accepted for insurance.

The Housing Agency did not request any increase in the title I authorization earlier this year because the number of title I loans and their dollar amounts insured in each of the past 5 years showed no significant increase. The number and dollar amount of loans insured during the last quarter of 1951 were about the same as in the last quarter of 1950. However, in the first quarter of 1952, there was an increase over the first quarter of 1951 of 19 percent in the number of loans and 39 percent in their dollar amount. The April and May figures showed an even higher rate of increase so that the first 5 months of business this year shows an increase of about 40 percent in dollar amount over the same period last year. It is this rate of increase which indicated exhaustion of the present authorization during October of this year.

The proposed increased authorization of $250,000,000, combined with the exclusion of financing charges from consideration of the total amount to be charged against the statutory limitation, should be sufficient to keep the title I property improvement program in operation notwithstanding an increased rate of business. This increased business reflects, in large part, the sustained volume of construction of new dwellings, many of which are further improved some time after their completion, the increased turn-over of existing dwellings, and the substantial increase in home ownership.

PROPOSED SECTION 15—INCREASE IN MAXIMUM MORTGAGE AMOUNTS FOR LOW-COST HOUSING UNDER SECTION 6

The proposed new section 15 would increase the maximum mortgage amounts for low-cost housing that receives special mortgage insurance advantages under section 8 of the National Housing Act. That section authorizes mortgage insurance to assist in providing adequate housing for families of low and moderate income, particularly in suburban and outlying areas.

Under section 8 at present, the amount of the insured mortgage may be up to $4,750 and 95 percent of the value of the property where the mortgagor is the owner and occupant at the time of the insurance. This maximum dollar amount would be increased by $500 (to $5,250) under the proposed amendment. A corresponding increase would be made with respect to a mortgage where the builder is the mortgagor. As your committee knows, the maximum dollar amount for section 8 mortgages was originally established at a relatively low figure and, in view of increased construction costs, this proposed amendment is desirable as an aid to the continued production of this housing.

The Bureau of the Budget has informed us that the proposed amendment concerning the FHA mutual mortgage insurance fund is in accord with the program of the President and that the Bureau has no objection to the submission of the other amendments proposed in this letter.

Sincerely yours,

RAYMOND M. FOLEY, *Administrator.*

PROPOSED AMENDMENT TO S. 3066, EIGHTY-SECOND CONGRESS, CONCERNING FHA MUTUAL MORTGAGE INSURANCE FUND

It is proposed that the following new section be added to S. 3066:

"SEC. 13. Section 205 (c) of the National Housing Act, as amended, is hereby amended to read as follows:

" '(c) The Commissioner shall, except as to group accounts terminated as of a date prior to July 1, 1952, transfer from each of the several group accounts to the general reinsurance account, beginning as of July 1, 1952, and as of the beginning of each semiannual period thereafter, an amount which, in the case of the initial transfer, shall equal 10 per centum of the total premium charges theretofore credited to such group accounts, and, in the case of subsequent transfers, shall equal the amount of any adjusted premium charges collected by the Commissioner in connection with the payment in full of insured mortgages prior to maturity

on or after July 1, 1952, and an amount which shall in no event be less than 10 per centum nor more than 35 per centum of all other premium charges credited to such group accounts during the preceding semiannual period. The Commissioner shall terminate the insurance as to any group of mortgages (1) when he shall determine that the amounts to be distributed, as hereinafter set forth, to each mortgagee under an outstanding mortgage assigned to such group are sufficient to pay off the unpaid principal of each such mortgage, or (2) when all the outstanding mortgages in any group have been paid. In addition to the amounts transferred as herein provided, the Commissioner shall, upon such termination, charge to the group account the estimated losses arising from transactions relating to that group, and shall distribute to the mortgagees for the benefit and account of the mortgagors of the mortgages assigned to such group the balance remaining in such group account, less any amount by which such balance exceeds the aggregate scheduled annual premiums of such mortgagors to the year of termination of the insurance: *Provided*, That any undistributed balance in the group account at termination shall be transferred to the general reinsurance account. Any such distribution to mortgagees shall be made equitably and in accordance with sound actuarial and accounting practice: *Provided*, That in no event shall any distribution to a mortgagor or for the account of a mortgagor under any provision of this Section exceed his aggregate scheduled annual premiums to the year of termination of the insurance.' "

PROPOSED AMENDMENT TO S. 3066, EIGHTY-SECOND CONGRESS, CONCERNING INCREASE IN FHA TITLE I IMPROVEMENT LOAN AUTHORIZATION

It is proposed that the following new section be added to S. 3066:

"SEC. 14. The last sentence of section 2 (a) of the National Housing Act, as amended, is hereby amended to read as follows: 'The aggregate amount of all loans, advances of credit, and obligations purchased, exclusive of financing charges, with respect to which insurance may be heretofore or hereafter granted under this section and outstanding at any one time shall not exceed $1,500,000,000.' "

PROPOSED AMENDMENT TO S. 3066, EIGHTY-SECOND CONGRESS, CONCERNING INCREASED FHA MAXIMUM MORTGAGE AMOUNTS UNDER SECTION 8

It is proposed that the following new section be added to S. 3066:

"SEC. 15. Section 8 (b) (2) of said Act, as amended, is hereby amended by striking '$4,750' in each place where it appears therein and inserting '$5,250' and by striking '$4,250' and inserting '$4,700'."

Mr. FOLEY. In general, Mr. Chairman, we appear in support of S. 3066 as it is before the committee. The provisions of S. 3066 are designed principally to carry out effectively the objectives of the Defense Housing and Community Facilities and Services Act of 1951. That legislation, which was enacted last year, provided the legislative framework for assisting the provision of housing and community facilities services required to meet the needs of in-migrant defense workers and military personnel in critical defense-housing areas.

The major phases of the bill that I might comment on briefly are first, the additional FHA mortgage insurance authorization.

I think the bill sets forth very clearly what is proposed and the need is discussed fully in my written statement. Fundamentally, it would provide $400 million of additional authorization and authority in the President to transfer remaining balances of authorizations unused in various titles to other titles where they can become effective.

There is need for something like $2,800,000,000 of authorizations to be used by the end of the coming fiscal year. The authorizations available for transfer unused in various titles total about $1,600,000,000. There will be accruals through the revolving of the authorized funds of about $700 million, I believe—between that and $800 million, and the additional $400 million provided by the bill would make up our estimated needs.

There is a provision in S. 3066, however, the deletion of which I would recommend. It provides that the additional $400 million may be used only for mortgages on defense, military or disaster housing insured after June 30, 1952.

While the purpose of that is clear, it would actually result in a very difficult, cumbersome, and costly administrative procedure, since it would have, in effect, to be administered as a separate insuring authority and fund. Therefore I recommend that that part of the bill, that is the proviso beginning in line 23, page 2, and ending on line 8 on page 3, be eliminated.

Another important phase of the bill has to do with the Federal National Mortgage Association purchasing authority and authority for advance commitments. The bill provides for $900 million of additional authorization limited in use to defense housing in areas declared critical to military housing and disaster housing and limited in time to the end of the next fiscal year.

By the terms of the bill it would have the effect of releasing $362 million of the present authorization to purchase mortgages which would represent the balance of funds set aside for critical defense, military and disaster housing.

In effect, if passed by the Congress, it would make it possible for us to issue advance commitments covering critical-area housing programed prior to November 22, 1951, which is the extent of the programed housing for which we have previously announced set-asides and which consequently we believe that lending institutions are relying upon having access to the Federal National Association mortgage market.

It would permit advance commitments for about 40 to 45 percent of the critical-area housing thus far programed or that we estimate would be programed during the remainder of the calendar year. We recommend this provision.

There are further provisions with regard to the Federal National Mortgage Association which are, in general effect, restrictive upon its operation. They were contained in the bill as introduced into the Senate and were recommended by us in our testimony there and they remain in the bill.

The major features there would be the application of a limitation of 50 percent of the base of eligible mortgages held by a lending institution to be eligible for sale after the passage of this bill to the Federal National Mortgage Association. That 50-percent limitation now applies on FHA insured mortgages and would apply, if this is enacted, also with respect to mortgages insured by the Veterans' Administration.

Mr. Fitzpatrick has pointed out that it would apply to nondefense mortgages but not to defense mortgages.

There is one point not covered in the bill which I think should be commented upon. There has been considerable discussion as to the desirability of including provisions which would permit the Federal National Mortgage Association to limit the aggregate dollar amount of nondefense housing mortgages which a mortgagee can sell to the association, to the amount of mortgages which it has purchased from the association. This proposal contemplates that, when a mortgagee purchased, let us say $5 million of mortgages from FNMA, it would be able to obtain a line of credit which would entitle it, for a period

of 1 year from the date of such purchase, to sell to FNMA not exceeding $5 million of new eligible mortgages. While we have some concern as to the increased administrative costs which would be involved in such a system, we would have no objection to the inclusion of such provisions as an additional authority which FNMA could, in its discretion, exercise either alternatively or in connection with the 50-percent restriction now provided in S. 3066. We have furnished to the staff of your committee a draft of a provision which would accomplish this purpose.

I understand that others may suggest to your committee that mortgages of $6,000 and under be exempted completely from the 50-percent purchase restriction or any other purchase restrictions which may be included on the aggregate dollar amount of nondefense mortgages which a mortgagee may sell to FNMA. To that we would object. I do not think it is wise to make such a provision hinging solely upon a dollar amount of the mortgage.

The bill also would provide a new base of eligibility of nondefense mortgages for Fannie May purchase. Under existing law any mortgages otherwise eligible for purchase by FNMA out of available funds may be purchased if insured or guaranteed at any time after April 30, 1948.

This bill, in order to conserve the limited amounts which would be available to FNMA for the over-the-counter purchase of nondefense mortgages, would change April 30, 1948, to February 29, 1952, except, again, for mortgages on defense, military, or disaster housing.

In that connection I think I should point out that generally speaking these provisions which are restrictive upon the operation of FNMA are, in our opinion, in keeping with the original purpose and with the repeated expressions of Congress as to how the FNMA should be used in the housing market.

The situation that exists with respect to inability to get the programed defense housing under construction as rapidly as the defense needs indicate, causes us to support the proposal for advance commitments and the $900 million of authorization to be exempt from these restrictions. But only that situation causes us to recommend it.

There is also a provision for repeal of an existing limitation on the authority of FNMA to impose fees. Presently a maximum fee of 1 percent is in the law. This bill would remove that limitation, leaving the imposition of fees discretionary with the association, a provision which we think is wise and would enable us to use the publicly financed secondary mortgage market more flexibly to meet situations as they arise.

Another section of the bill of extreme importance in the long-range approach to the defense program has to do with authorization of defense community facilities and Federal defense housing.

Mr. McDONOUGH. What section is that?

Mr. FOLEY. That is section 4, Mr. Congressman. This would increase the authorization for defense community facilities and services, now contained in title III of the Defense Housing and Community Facilities and Services Act of 1951, from $60 million to $100 million, an increase of $40 million. These are in community facilities and services.

Applications for assistance now before us have a total cost of about $75 million. The FHA part of that as distinguished from the Federal

Security Administration part would require about $40 million. This bill would propose an increase of the authorization of $40 million.

We have a considerable discussion of it in the prepared statement which I think would give the picture to the members, and I shall not take up the time to read it here.

We believe, however, that the funds now available to us will probably make it possible for us to proceed during the remainder of the calendar year, but we recommend the added authorization so that we will be in a position to meet the situation promptly before the new Congress, as the needs arise.

With respect to federally provided defense housing, section 4 of the bill would increase the authorization for federally provided defense housing now contained in title III of the 1951 Defense Housing Act from $50 million to $100 million. I think probably this committee is thoroughly familiar from previous hearings with the necessity for the type of approach that was contained in last year's legislation and is also familiar with the situation with regard to appropriations.

Of the present $50-million authorization, $37.5 million has been appropriated—$12.5 million of that total only became available on June 5, 1952. The $12.5 million unused balance of the present authorization, together with an additional $50 million, contingent upon the enactment of $50 million increased authorization contained in S. 3066, is now pending before the House Committee on Appropriations.

Except for a small reserve, the $25 million first appropriated for defense public housing has been obligated. You will recall, I am sure, that very early in this session we filed a report on that fund. It is obvious, of course, that those funds, thus far made available, would meet only a very small fraction of the need and we have decided, therefore, to use the funds that have been thus far made available to meet the most serious cases that are given priority by the military in the defense areas.

We can present to the committee a great deal of information on the total needed and the insufficiency of the allocations that we have thus far been able to make, even in the areas where we have made them, because of the limited funds.

I would be glad, if the committee wish, to go into the matter more fully, on the completion of this statement.

We believe, however, that the authorization ought to be for the original amount in the bill as submitted to the Senate; that the total additional authorization should be $150 million which we think would carry us through at least until the next session of Congress.

Section 5 of the bill refers to the use of existing federally owned masonry housing to meet defense needs. That is a somewhat technical provision. It would give us authority to make use of appropriated funds under Public Law 139. Adequate authority in this regard exists with respect to federally owned houses of frame construction. This was classified as temporary housing built under the Lanham Act but built of masonry and therefore not readily portable and therefore not coming under the authority that we have already, so that we may expend those funds to make that housing available for defense purposes. There is a relatively small amount of that—I do not have the exact figures on all of the temporary housing and all the masonry construction. There are presently two particular projects

in which we know that that authority is needed and could be usefully employed.

Mr. McDONOUGH. Where are they located?

Mr. FOLEY. Harvard, Nebr., and Brunswick, Ga.

Section 6 of the bill provides an extension of the removal date for temporary World War II housing. It would amend the Lanham War Housing Act so as to permit the President to extend the December 31, 1952, date which is now prescribed in section 313 of that act for the removal of certain limited classes of temporary war and veterans housing under the jurisdiction of the Housing Administrator. Authority has been already granted to extend this date with respect to the bulk of the temporary war and veterans housing, but there are several classes which were omitted, we believe largely through inadvertence. The total number of such units would be about 34,500.

Section 7 of the bill deals with Alaska housing authorization. Under the Alaska Housing Act, which is Public Law 52 of the Eighty-first Congress, the Housing and Home Finance Administrator is authorized to purchase, on a revolving basis, bonds or obligations of the Alaska Housing Authority in the amount of $15 million to provide funds for housing construction in the Territory. This authorization is virtually exhausted and there are before the Alaska Housing Authority and therefore before us proposals for a considerable number of further housing projects to be privately built there, which are badly needed at this time in the Territory, with particular reference to the defense importance of the Territory.

The bill as introduced into the Senate provided for $10 million of addition to the fund and as passed by the Senate it provided I believe for $5 million. We recommend that the figure of $10 million be approved, making the total available authorization on a revolving basis $25 million.

Section 8 provides for a waiver of FHA fees on conversion of applications from section 608 to section 207.

Very briefly, the situation is, as you know, that title VI of the National Housing Act has expired and there were some remainders of projects which had commitment and which gradually we have been trying to eliminate from the situation, a good many of them by transfer and conversion to title 207 of the regular long-time permanent provision for rental housing. This would merely make it possible for us to apply the fees already paid rather than to have a new fee when an application for the same project, on the same property, is filed with FHA.

Section 9 has to do with cancellation of Housing Agency notes to the Treasury on account of losses on loans transferred to the Housing Agency from the RFC. That deals with the prefabricated housing program. Very briefly, when that program was transferred to the Housing Agency, there were a considerable number of loans which were already in default, or where default was imminent. The RFC had been able, of course, to carry reserves in its operations which the Housing Agency, since it had no background of past earnings, could not establish. A book reserve of almost $8 million for losses on account of the transferred loans was established at the time of the transfer but no reserve funds were actually transferred to the Housing Administrator. Consequently it is proposed in this bill that the Treasury be authorized to cancel notes covering that section of the

loans as they result in losses. I would like to point out that no losses and no serious delinquencies have occurred on loans made by the Housing Administrator since the transfer.

Section 10 deals with the extension of the Federal Housing laws to the Island of Guam. I think the committee is thoroughly familiar with that and I need not spend too much time upon it. being aware of the necessity of making this very brief because of the heavy workload before the committee and I do not like to add further to their problems. But there are a number of matters which are not included in the bill, developed largely as problems since our previous discussions of the bill before the Senate that I would like to bring up here.

Under date of June.19, 1952, I sent to the chairman of this committee a letter transmitting the draft of a bill to conform the provisions relating to payments in lieu of taxes in the Lanham Act to similar provisions of Public Law 139. Copies of an explanatory statement and a justification of that draft of the bill have been made available to the members of your committee and if those provisions meet with your approval, I hope it will be possible to include those provisions in Senate 3066.

In addition, under date of June 20, 1952, I sent to the chairman of the committee a letter transmitting three legislative proposals relating to the FHA's insurance program. These proposals which I earnestly recommend for favorable consideration would (1) strengthen and improve the operation of the title II mutual mortgage insurance fund; (2) increase by $250 million the title I authorization for property improvement loan insurance, and (3) increase by $500 the maximum mortgage amounts for low-cost housing under section 8.

I believe the ceiling now is $4,750. This provision would raise it to $5,250 of mortgage amount. Copies of the June 20, 1952, letter have been furnished to the members of the committee. If the suggestions contained in that letter meet with your approval, I hope it will be possible to include these three provisions in S. 3066, since we believe they are highly necessary to the operations of FHA.

I have been advised by the Bureau of the Budget that the enactment of Senate 3066 and the suggestions with reference to FHA's mutual mortgage insurance fund under title II would be in accord with the program of the President.

I have also been advised by the Bureau of the Budget that there is no objection to the submission of the other amendments which I have recommended to your committee.

Thank you very much, Mr. Chairman and gentlemen. I should be glad to answer any questions.

The CHAIRMAN. Senator Chavez had an amendment to the bill which I believe by inadvertence was not considered in the Senate. Are you familiar with that? It permits transfers from section 203 to section 908.

Mr. FOLEY. Yes, I recall that and we have no objection to that amendment, sir.

Mr. COLE. It was not inadvertence, was it? It was because this went through the Senate so fast that nobody knew it was going by.

The CHAIRMAN. Are there any questions of Mr. Foley?

Mr. RAINS. Mr. Foley, when the Congress set up FNMA, it was the hope of Congress, and I am sure your hope, that it would turn into a type of revolving fund. It seems not to have done that. Have

you any suggestions as to how that hope can be achieved by amendment to this bill?

Mr. FOLEY. I believe that the general proposals in this bill, Mr. Congressman, will have a helpful effect in that direction. If I may, I will recall to your mind the fact that the Federal National Mortgage Association was transferred to the Housing Agency from the RFC in the fall of 1950. At that time the mortgage market was generally somewhat freer in operation than it is today.

The conditions that have led to that are not news to this committee. At the time that we took over the operation, we set out upon a program designed to accomplish exactly what you are talking about. We undertook an energetic sales program which we have carried forward since, up until March of the following year, when the mortgage money situation tightened up in a series of events that took place at that time.

We had developed the sales program until it was a very promising prospect that we would actually put the Federal National Mortgage Association into the condition that you describe. With the tightening up of the mortgage funds, of course, that situation went into reverse and we began accumulating further portfolio rather than reducing portfolio.

I should point out that we were undertaking that task under the situation that existed when it was turned over to us, but there was the existence of a very large amount of advance commitments to buy mortgages under the old authority which had been essentially rejected by the Congress. Since that time we have been continuing that sales policy, and the sales have been relatively small.

We believe that the limiting provisions of this bill together with that policy and attitude on our part, the part of the management of Fannie May will, as the mortgage situation betters—and it shows promise of bettering—accomplish what you have in mind.

Mr. RAINS. Of course, in reality, it was the hope of all of us that it would be a secondary market but frankly it has turned out to be a primary market. Is not that about the story?

Mr. FOLEY. Not entirely; but with some dangerous tendency toward its being regarded that way by some part of the industry, and the advance commitment authority, as it was possible freely to use it in the past I think encouraged that point of view. The advance commitment authority here proposed is a very limited one, as I have pointed out and I would have it no other way.

Mr. RAINS. The allocation made by the Senate bill, when you finally break it down, as I understand it, is $900 million that you can commit to critical housing areas, which leaves about $360 million; am I correct?

Mr. FOLEY. $362 million.

Mr. RAINS. $362 million to be committed elsewhere. First of all, let me ask you this question. How long does that power of commitment under the Senate bill last?

Mr. FOLEY. Advance commitment? To the end of the coming fiscal year.

Mr. RAINS. Do you think that you can wisely commit $900 million to critical housing areas by July of next year?

Mr. FOLEY. Whether or not we shall be asked for the advance commitment is a question, of course. But I think we can, because

the way it applies, strictly to programed defense housing, we control that situation. About $550 million of that $900 million would be applicable to housing programed in critical defense areas after November 21 of last year and would cover what has been programed since that time and what it is estimated we would program. The estimate for that is 163,000 units thus far programed since that date in November, which was the cut-off date for the set-asides previously made and programed that may yet take place. If that much is programed, the $550 million would cover about 40 percent of it. We cannot, of course, be sure that that much will be programed. We cannot be sure of the rest of the defense program, but I believe it could be wisely used, since it is quite limited.

Mr. RAINS. The point I had in mind is that $362 million is just a small drop in the bucket compared with all the needs outside critical areas. Of course, I want whatever is necessary to go into the critical defense areas, but I wondered if you did not think that the division was a little overbalanced there.

Mr. FOLEY. I think not, Congressman, because of the other limiting provisions in this bill which we have recommended.

The new eligibility date proposed in this bill would have a great effect, you see, upon that part of it offered to us over the counter. Also the proposed 50-percent base across the board instead of 50 percent only with respect to FHA would have that effect. It would have the effect of reducing the exposure of the over-the-counter authorization to new mortgages in essence rather than those already created and in a portfolio somewhere.

We would have, of course, the effect of the revolution of the fund, the sales and the amortization, which presently run about $8 million a month on repayments. Also we would have what I believe will be the effect of the loosening up of the private mortgage money market in this field. There are signs of that. I do not, in fact, expect that we will eventually buy all of the defense and disaster mortgages for which we make commitment.

Mr. RAINS. I hope not. Perhaps I got the wrong inference from your statement, but I note on page 17 that you seem to say that you are using commitments for critical housing areas for temporary housing. Is that right?

Mr. FOLEY. If by that you mean we can use Fannie May funds for temporary housing, the answer is "no."

Mr. RAINS. Are you using funds for other types of defense housing for temporary housing?

Mr. FOLEY. The funds which have been appropriated and the funds proposed to be further authorized and appropriated which provided defense housing have been used entirely up to now and will be used largely in the future for temporary housing.

Mr. RAINS. I had the impression that a subcommittee of this committee last year headed by Mr. Hays, I believe, very seriously objected to that type of housing. Do you remember that?

Mr. FOLEY. I do not recall that, but I do recall, Mr. Congressman, that in appearing on that bill before this committee the proposal for temporary housing was very thoroughly discussed.

Mr. RAINS. Is it your understanding that Congress gave you authority to use the defense-housing funds for temporary housing?

Mr. FOLEY. I think very clearly, sir, in title III of Public Law No. 139. In fact, the act makes specific provision limiting us as to the use of those funds for providing permanent public defense housing until we shall have, in effect, exhausted the opportunity for getting it provided privately.

Mr. RAINS. That is all.

The CHAIRMAN. Mr. McDonough.

Mr. MCDONOUGH. Mr. Foley, I presume that you are familiar with the situation so far as the public-housing controversy is concerned that has been raging in Los Angeles for some time?

Mr. FOLEY. I think I am familiar with what has occurred up until very recent date.

Mr. MCDONOUGH. The most recent action was a proposition on the ballot in which the people voted by a majority of more than 120,000 in effect to cancel the existing contract between the Federal Government and the Los Angeles Public Housing Authority and to declare that they did not want to proceed with the program now in effect. The question I would like to ask you, Mr. Foley, is this. If you were assured as Public Housing Administrator that all of the funds spent up to date by the Los Angeles Public Housing Authority would be reimbursed to the Federal Government, would you be willing to cancel the existing contract or cooperative agreement or the commitments that now exist between the Federal Public Housing Administration and the Los Angeles Public Housing Administration?

Mr. FOLEY. We have a very definite position on that, Congressman, if I may make a very brief statement on it. First, since it is a complicated legal question, I will ask our general counsel to state it to you for us, as he stated it within the past few days to another committee of the House.

There seems to be an impression prevailing in some quarters, I think an impression being manufactured in some quarters, that the Housing Agency is necessary and that Los Angeles go forward with the public-housing program under discussion.

Mr. MCDONOUGH. That is, the Federal Housing Agency?

Mr. FOLEY. The Federal Housing Agency. That is not the case. We have a situation here where we have a contract entered into, with all of the requirements of law, and there are some very specific requirements in the act of 1949, of actions that must be taken by a community government as distinguished from the local authority with whom we enter into a contract through the Public Housing Administration. All of those have been complied with. The contract is entirely in accordance with law.

We have taken the position that we cannot unilaterally abrogate a contract, and have taken the position that a large amount of public funds, about $14 million, which is I think the exact figure, has already been advanced; and without the request on the part of the other party of the contract, and the tender of the funds, we are not in a position to cancel the contract. Up to this time, to the best of our knowledge, neither of those conditions has been met.

Now I would like to ask Mr. Fitzpatrick to state a little more fully, because I think it is an extremely important matter, to this committee what is our position on it.

Mr. FITZPATRICK. Mr. Congressman, the problem arises out of the fact that our contract runs to the Housing Authority of the City of

Los Angeles. Under the decision of the Supreme Court, particularly the decision in the Lynch case, the Court held specifically that rights arising out a contract with the United States are protected by the due-process clause of the fifth amendment; that, if the Federal Government has the power to enter into a contract and does enter into it, the contract may not be abrogated unilaterally.

If the Los Angeles Housing Authority comes to us and pays off the obligation, under the contract we have to terminate it. But the other party has to come to us and pay off and get the cancellation. We cannot ourselves simply cut off. I have suggested that remedy——

Mr. McDONOUGH. Let me interrupt you at that point. I understand that you cannot cut off, because that would be unilateral action. You can, however, accede to the request of the Public Housing Authority.

Mr. FITZPATRICK. Oh, yes, provided they pay us back.

Mr. McDONOUGH. Provided the Federal Government is reimbursed for all losses up to that point.

Mr. FITZPATRICK. That is right.

Mr. McDONOUGH. Do you feel as a Federal agency that, since the people have so expressed themselves, there is public sentiment that is not favorable and, therefore, the security of the public-housing project would not be as firm in Los Angeles as it would be if this vote had not been expressed; and, therefore, there is danger of continuing the controversy?

Mr. FITZPATRICK. Certainly there is danger of continuing the controversy, quite apart from any question about security. I think the basic and controlling intent of the Housing Act of 1949 was that the initiative for local housing plans rests with the local community and with the people of the community; that, if they do not desire to take advantage of those programs which the Congress has authorized, it is not for the Federal Government to impose any such program upon them. It rests entirely on their decision.

If I may answer you further, I have this suggestion which I have made to Congressman Phillips and I also discussed it with Senator Nixon. It is that these are two local agencies that are involved in a local row. They are, in fact, political subdivisions of the State of California. They are governed by the laws of California and were both created by the Legislature of the State of California.

Mr. McDONOUGH. When you say "both", what do you mean?

Mr. FITZPATRICK. I mean both the city of Los Angeles and the Housing Authority of the City of Los Angeles. I think the situation may be dealt with properly by the Legislature of the State of California, which, in such a case, can say, in terms of a law, when a situation occurs such as has occurred in Los Angeles exists, the commissioners of the Los Angeles Housing Authority, or any other housing authority, are under a mandatory duty to go, with your city council, to the Federal Government and pay back the money and cancel the contract. That can be done appropriately by State law, since both are creatures of the legislature and subject entirely to its control.

Mr. McDONOUGH. I appreciate your reply very much, Mr. Fitzpatrick, and yours, Mr. Foley. In other words, you are stating that there is no effort being made on the part of the Federal Housing Administrator or the Public Housing Commissioner to pursue the contract in Los Angeles in view of the expressed vote of the people in this primary election?

Mr. FOLEY. That is correct, even to the point of trying to keep from having further involvment as far as possible, through the letting out of funds, until it is settled, with one reservation; we have to point out that where the local authority has actually entered into a contract with others for the construction, or what have you, that we are not in a position to say to them, "You cannot proceed with those." In other words, we cannot order them to abrogate their contracts with someone else.

Mr. MCDONOUGH. And I am further assured that you are willing to acquiesce providing the reimbursement is made?

Mr. FOLEY. Provided those conditions are met; yes, sir.

Mr. MCDONOUGH. Mr. Foley, do you see any relationship in the funds in this bill before us to the Public Housing Administration in the matter of building public, low-cost housing?

Mr. FOLEY. There is no provision in this bill relating to the so-called low-rent public housing program.

Mr. BROWN. It does not deal with public housing at all.

Mr. FOLEY. It deals only with publicly provided defense housing. That has nothing to do with low-rent public housing and the Los Angeles matter.

Mr. COLE. I would like to ask a question about the cancellation of these notes. What do these notes consist of?

Mr. FOLEY. Those are notes given to the Treasury representing the amount of funds that would be made available originally to make the loans. They total about $8 million in those cases that would be affected by this bill.

Mr. COLE. Who are the signers of the notes?

Mr. FOLEY. The RFC originally. They are now represented, of course, by notes signed by the Administrator of the Housing Agency to the Treasury following the transfer.

Mr. COLE. Included in those, is the Lustron note?

Mr. FOLEY. No, the Lustron note was not transferred to us.

Mr. FITZPATRICK. When those loans were transferred to us, there were several which were in default at the time of transfer. The losses on those will amount to approximately $8 million. The RFC had its total funds available to it and therefore it did not set up any reserve for losses on this program. We have no reserve transferred to us and no method of paying those losses. As to future loans and loans which we have made to date, we have set aside the income from those and therefore, if we have any losses, we would take care of them out of that. But we have no method of dealing with losses on the loans that were transferred to us.

Mr. FOLEY. I might add that currently the operation of that program indicates about $400,000 net after all expenses for this fiscal year; is that correct?

Mr. FITZPATRICK. Yes.

Mr. COLE. That is all.

Mr. NICHOLSON. With reference to the island of Guam, would all that housing be military housing?

Mr. FOLEY. It would be both military and civilian. That is under section 10.

Mr. NICHOLSON. Is that because we send civilians from the United States to Guam, that we have to pass this legislation?

Mr. FOLEY. They are civilian employees of the Government. The natives of Guam are made American citizens by the organic act for

Guam passed in 1950. What this would do, Congressman, is make available in Guam as it does in this country and in Alaska the provisions of the National Housing Act on FHA insurance and it would make the Federal Home Loan Bank System available there—and what others?—the defense housing, the provisions of the law before you.

Mr. NICHOLSON. What I do not understand is why the Government does not make provision from general appropriations to build these places to house these people instead of having a situation in Guam where you have to go out and get a mortgage and build a house. These needs are entirely due to our Government's taking care of Guam and are for the civilian employees and the military forces.

Mr. FOLEY. I presume, Congressman, that it is based upon the same general philsophy upon which most of our housing legislation is based, namely: that so far as we could, we had to get the housing taken care of privately, with local initiative. It may well be that there may be the necessity for some housing to be provided for strictly military purposes by direct appropriation. That is a matter I suppose that the Congress itself will determine under some other heading. This would not exclude that possibility.

Mr. NICHOLSON. It does not exclude it but it seems to me that it does not do it. They would rather borrow money and instead of having the taxpayer pay for it once, he pays for it twice; once in mortgages and once in principal.

Mr. FOLEY. Of course, I have to disagree with the suggestion that the taxpayer pays for it in the mortgages since these would be mortgages made with private funds, at the most insured through the FHA or possibly through the Veterans' Administration and the experience of some 18 years of history is that that is a pretty successful system and does not result in charges upon the Treasury.

Mr. NICHOLSON. As I understand it, these people who go out to those islands in the Pacific only go there for a year or two. Then they pack up and come home. As a rule the people who go there from the United States—go to Guam—do not go there to make a permanent home.

Mr. FOLEY. In that case I presume that rental housing which could be provided under these provisions would accommodate them and still be provided privately.

The CHAIRMAN. In connection with the public housing situation in Los Angeles, evidently the people out there voted for public housing and then reversed themselves, did they not?

Mr. FOLEY. The people had not originally voted in a popular election on this particular subject.

Mr. FITZPATRICK. The city council had previously given the requisite approval, but there had not been any local referendum on the Los Angeles program prior to this year.

Mr. MCDONOUGH. Let me correct the record on that: The city of Los Angeles and the State of California, as a matter of fact, have voted on the proposition concerning public housing. The proposition voted upon in effect said that no public housing should be constructed in any locality of the State without a previous vote of the people. This project, however, was in the bill before that proposition was voted upon. The proposition that was voted upon on June 3 was a declaration, so far as the people of Los Angeles were concerned,

that they did not want the project now existing between the city housing authority and the public administration to continue.

The CHAIRMAN. It seems that it can be satisfactorily adjusted. If you make the agency whole, they can do what they can to relieve you of the contract. That seems to be a fair adjustment.

Mr. MCDONOUGH. If the funds are reimbursed, and if they come to the Administrator, as Mr. Foley stated, the contract will be canceled.

The CHAIRMAN. What change does this make in the method of procedure in the administration of the Federal National Mortgage Association?

Mr. FOLEY. It would make no change in the organization, nor its line of responsibility. It would, in general, leaving aside the $900,000,000 advance commitment authority, restrict the operations in a way we believe would be helpful to furnish an incentive to private funds to carry the load without reliance, as Congressman Rains has indicated, that seems to make it a direct primary source of funds rather than the secondary source, as was intended.

The CHAIRMAN. If there are no further questions, you may stand aside.

Mr. FOLEY. Thank you very much, Mr. Chairman.

The CLERK. The next witness is Mr. Alan E. Brockbank, president of the National Association of Home Builders.

The CHAIRMAN. Do you have a prepared statement?

STATEMENT OF ALAN E. BROCKBANK, PRESIDENT OF THE NATIONAL ASSOCIATION OF HOME BUILDERS

Mr. BROCKBANK. Yes, I have a prepared statement.

The CHAIRMAN. It will be inserted in the record at this point.

(The statement referred to is as follows:)

STATEMENT OF ALAN E. BROCKBANK, PRESIDENT, NATIONAL ASSOCIATION OF HOME BUILDERS ON S. 3066 BEFORE HOUSE BANKING AND CURRENCY COMMITTEE

I shall be very short, since I realize the demands on your time.

As you know, I am president of the National Association of Home Builders, the trade association of the private home building industry.

We strongly support this bill as essential for the production of defense and veterans housing and for a stand-by for the mortgage market.

This committee knows that we are committed to the principle that the Federal Government should not engage in any activity that can be adequately performed by private enterprise and that we have at all times urged avoidance of needless Federal expenditures. This bill is consistent with those principles. We are convinced that the authorizations and appropriations it provides have been cut to a minimum and that appropriate safeguards have been included to avoid possible abuse.

We suggest one amendment. To prevent dumping of loans on the Federal National Mortgage Association, the bill permits purchase of not more than 50 percent of the original principal amount of insured or guaranteed nondefense mortgage loans made by any one mortgagee since March 1, 1952. We are heartily in accord with this objective and would not support this bill except if its operations were restricted to prevent dumping. We believe this could be better accomplished, however, by restricting sales to FNMA by any one mortgagee to the amount which it purchases from FNMA after April 1, 1962. Our suggested amendment would insert such a provision as an alternate to rather than as a substitute for the 50-percent limitation, leaving it to the sound discretion of FNMA to determine appropriate use of either limitation. Under such a provision a purchaser from Fannie May would be entitled to have earmarked for his use for a reasonable time the right to sell to FNMA an amount equivalent to the amount of his purchase

In order to encourage lower cost housing, mortgages of $6,000 and under would not be subject to such limitation. This suggestion is referred to as the one-for-one plan.

The reasons why we advocate it are:

(1) It would employ the energy and ingenuity of lenders to help place FNMA's portfolio in private hands.

(2) It would in our opinion improve the mortgage market. Our experience indicates that a mortgage investor would prefer to purchase mortgages that have been seasoned for a period of time rather than to make commitments for mortgages on houses to be built in the future for two reasons:

(a) The repayment experience of the mortgagor is available to the investor.

(b) The mortgage is ready for delivery the day the investor decides to purchase. His decision to purchase and his offer for purchase will be based on current economic conditions. Therefore, an originating lender can sell to a mortgage investor a loan which he takes out of FNMA—more readily and for a better price than new loans or commitments for loans on houses to be built in the future. Even if he must resell the FNMA loan at a discount, the discount would be less upsetting to the mortgage market than if FNMA were to sell its portfolio at a discount. The cost of the discount would not be passed on to the purchaser of the home on which a new mortgage was written.

(3) The 50 percent limitation is unduly restrictive on smaller lenders in isolated areas who are most in need of FNMA's facilities. It permits the large lender, to whom private sources are available, to quickly build up a credit base against which he can sell to FNMA.

(4) We sincerely believe that if this proposed one-for-one program is enacted into law it would end the necessity for congressional consideration of addtional FNMA authorization by making the FNMA funds revolve. We further believe that if the only safeguard is the 50 percent limitation that the entire fund will be quickly used up and there will be a demand for further appropriations to FNMA. Our suggested alternate limitation would prevent this.

(5) The suggestion will reduce FNMA to its original status as a subordinate and stand-by facility for use only in such areas and at such times as mortgage credit is temporarily scarce.

Attached for your consideration is suggested wording. We strongly urge that it be included.

The Home Builders have under way a comprehensive Nation-wide low-cost housing program, both for rent and for sale. We acutely need additional financing tools to make this program successful.

We recommend two amendments to existing FHA insurance provisions. The first of these would amend FHA section 203 (b) 2 (d) to make it available for rent and to include duplexes. At the present time, this section is operable only with respect to low-cost free-standing houses for sale.

Second, the dollar limits on FHA title I, section 8, should be raised to permit a $5,700 mortgage to the owner-occupant on houses valued at $6,000.

If this committee desires, I shall be happy to expand these arguments in more detail by submitting a fuller statement for the record.

AMENDMENT TO S. 3066 TO PROVIDE SO-CALLED ONE-FOR-ONE PROVISION AS AN ALTERNATE LIMITATION TO THE 50 PERCENT LIMITATION

Amend section 3 (a) (2) by adding after the word "exceeds" the following "either (i)"; and by adding at the end thereof the following: "or (ii) the aggregate amount paid by such mortgagee to the Association after such date for all mortgages purchased by it from the Association which, notwithstanding the provisions of subparagraph (G), may issue to such mortgagee as evidence of such purchases a certificate dated as of the date of each such purchase, effective for 1 year from its date of issuance and containing such other terms and conditions as the Association may by regulation prescribe."

Amend section 3 (a) (3) by adding at the end thereof the following: "or any mortgage the principal amount of which does not exceed $6,000, except that the amount of such mortgages purchased by a mortgagee from the Association shall be included in computing the aggregate amount of purchases by such mortgagee from the Association: *And provided further*, That the Association may by regulation prescribe for the application of either subclause (i) or subclause (ii) of this clause (2) as in its discretion it may from time to time deem appropriate to conserve the funds of the Association."

Mr. BROCKBANK. If I may, I would like to emphasize two or three things that we are quite concerned about.

As you possibly know, we are endorsing this bill, especially that part of it which relates to defense and military housing. We find that it is very essential for the construction of defense and military housing that we have funds available to us which have not been made available up to this time on those projects beyond the ones that were originally available for first FNMA funds which have already run out.

We are very much concerned, however, about one part of this bill that we want to try and make clear to you. We feel that the time has come when, if possible, FNMA's funds should be surrounded with such safeguards that it would be unnecessary to have further authorizations.

We are referring to that clause of the bill which permits 50 percent of a lender's portfolio to be sold to FNMA after the last day of February; that is, where it was originated after the last day of February 1952.

We are concerned about the matter of dumping, and we do not wish to see FNMA operate as a grounds for dumping of mortgages. We want it to take its original position as a stand-by, secondary market, which will support the building program and the mortgage program of this country in an emergency condition. Therefore, we are suggesting a clause which Mr. Foley alluded to, called the one-for-one clause.

Now, this is what we are talking about: We feel an alternate to the 50 percent sales program should be made available to FNMA which permits a mortgage banker who can make a sale on a spot basis to a private secondary market, but cannot make a sale to the secondary market where mortgages are to be originated months later because the houses are just being put under construction, to go to FNMA and buy mortgages out of FNMA, sell them to the private secondary market and have what you might call a precommitment or priority in FNMA to sell dollar for dollar the same amount to FNMA when the housing construction is completed.

Now, I want to point out to you some of the things we think this would do. We think, first, it would make FNMA salesmen out of the approximately 1,200 lending institutions in this country. They would be attempting to sell out of FNMA to the secondary markets and thus make possible the turn-over in those funds.

The second thing that I would like to point out to you is that it is very important at this time to those people in the private secondary market, investment bankers, to be able to get a loan which is somewhat seasoned, as they call it; a loan on which they can actually look at the payment experience of the man who is living in the house and see whether he is paying promptly or not. Secondly, they like to be able to buy on the day they are going to get delivery, or close thereto, because they buy then on current market conditions and current economic conditions. It would make it possible, in our opinion, for those funds to turn over and continue to be a stand-by fund for the whole mortgage business.

The next thing we think is important about this—and we are very emphatic about this part—is that we think in the 50 percent amendment, this makes it possible for the large lending institutions of this country, that often have very good connections in the secondary

market, to sell half of their portfolio to FNMA and the other half to some other secondary market. Whereas in areas of this country that really need the secondary market financing, the South, the Southwest, and the far West, or areas away from the great money markets of this country, this would make it hard for them to do business because many of them do not have access to the great secondary markets that are available in the East.

Therefore, it restricts the very people that need help most, at least at this time.

Then we feel that there is good reason why FNMA should only be in a stand-by position. We know—maybe it is now; maybe it is soon—that additional FNMA authorizations may come to an end; there may be no further appropriations for it, and we think if this proposed amendment to the act is made an alternate and is used, that it will make those funds roll over and continue to roll over so that FNMA will actually work as a stand-by secondary market.

Last of all, I want to emphasize that there are conditions that arise at various times—and they have arisen many times in the last 2 or 3 years—where it is important that at one particular time during the year we have that stand-by available to us. We think that if you will make this an alternate proposition it will work. We are anxious to do it and we think it will be worth while.

There are two other parts of this bill that we would like to point out to you: Gentlemen, we are very anxious that the home builders of this nation get into the low-cost housing business for rent and for sale, and I am preaching that from every pulpit, that I get a chance to get in because I believe that private industry has to, in the final analysis, take the job and do it. We have found in our examination of the tools available to us two places where we need assistance. We would like to have section 203 (b) (2) (d) of the Federal Housing Act amended. That section now permits a 95 percent loan to an owner-occupant on a house selling for less than $7,000, but it must be a free standing house and it must be for sale. We would like that changed to some reasonable percentage of mortgage to the builder. We are not ready to tell the Government what it should be, but it should be as high a percentage as they feel under present conditions is possible, to make that vehicle available to private builders so that they can rent these units. It would be possible to build duplexes, for example.

In every hamlet in our country our builders build at least one low-cost rental housing for rent at first. If they build one, they could build two or more, but we do not have a vehicle now for the little fellow to build a unit for rent. I am very anxious to see that this is accomplished.

The third thing is one that Mr. Foley spoke of, and that is title I, section 8. We feel that title I, section 8, which is the low-cost field, should be amended to raise its limits where it is now based on a $4,750 loan to the owner-occupant at approximately a $5,000 sales price, to a $6,000 sales price with a $5,700 loan. We are asking for $500 more than Mr. Foley, and here is the reason why: Gentlemen, we are opposed to our builders building incomplete houses. We want them to build complete houses. We do not want these conditions to arise in this country such as Congressman Rains has been investigating. We understand some of those he has been investigating were built

under this same section but were left incomplete. We want them complete houses so there will be no complaint about them; so that the people clearly understand what kind of a unit they get. We feel it is very important to raise this limit, not $500 but $1,000 and have a complete unit out of it and get away from the complaints. That is our plea to you on this bill.

If there is any additional information concerning it, we will be very glad to submit it to you.

Incidentally, on the third page of our written testimony we have given the wording that we would like to have inserted on page 3, line 23 of the bill, in order that the one-for-one program that I spoke to you about with respect to FNMA may be made available.

The CHAIRMAN. Your proposition is if an applicant to FNMA makes a proposition to them that he can dispose of $1,000,000 of their securities, they will then make available to him the same amount of commitments?

Mr. BROCKBANK. That is right, but he must sell them first.

The CHAIRMAN. You are not in favor of precommitments generally, are you?

Mr. BROCKBANK. No, we are not, except for defense and military housing.

The CHAIRMAN. You are not in favor of that with the troubles and the scandals they had when the recommitments were in effect.

Mr. BROCKBANK. That was a different proposition. In this particular case I am sure that the mortgage banker, if he made his arrangement with the builder before the house was started, would clearly understand that he had to deliver to FNMA a good product, and he would only have the precommitment on the basis that he had gone out and sold it first. I would like to point out to you that that sale of FNMA mortgage out of FNMA may not always be at par. He may have to sell them at a little less than par in some cases.

The CHAIRMAN. What facilities would the applicant for federal national mortgage assistance have in securing a market for the mortgages?

Mr. BROCKBANK. I would have asked that question myself 2 weeks ago, Mr. Chairman, but last week I offered to a bank in our area the loan on about 70 houses, and they went out and looked at them and when they came back they said, "Now, we are interested in mortgages; we have to keep our mortgage portfolio up, but we think it is going to be from 3 to 6 months before the houses are finished, and we do not want to look that far into the future. If you have some mortgages to bring in right now, we will be glad to consider them, but we are not interested in them from 3 to 6 months from now."

Our people have had similar experiences all over, and that is the reason why we think this factor would operate in our favor.

Mr. MCKINNON. Now, on this title IX housing throughout the country, have you had difficulty getting the houses under way and completed?

Mr. BROCKBANK. Yes.

Mr. MCKINNON. I know in San Diego they have had a little difficulty. I would like for you to comment on that.

Mr. BROCKBANK. We made a survey on that subject last week all over the country and we are finding that the housing where they were

able to get FNMA commitments, are going ahead, but beyond project No. 94 they are not going ahead because they are unable to find defense housing money and they are waiting for this bill to be passed, if it is possible, in order that they might have the money to go ahead.

Mr. McKINNON. You do need prior commitment money in defense areas?

Mr. BROCKBANK. We do in defense areas, that is right.

Mr. McKINNON. You have no objection to prior commitments on defense areas?

Mr. BROCKBANK. We have none.

Mr. McKINNON. San Diego is a good example on a defense area, and the deadline was about December 26th or 27th on the prior commitment money.

Mr. BROCKBANK. I think that is right.

Mr. McKINNON. We have about 9,000 allotted for the city of San Diego and another 500 for the county. I understand that up to date there have been just a few houses completed. Even with prior commitment money red tape has delayed the construction and development of those houses. Have you had similar experience throughout the country? Is that just a particular problem in San Diego?

Mr. BROCKBANK. I think your problem is more acute in San Diego, Mr. Congressman, but there are some areas that have had some difficulties, and some of those difficulties are covered in this bill. We have had some of our builders tell us that without this utilities program in this bill they will be unable to go ahead. In other words, some of these projects are located in such areas that it is necessary for them to have community facilities put in, such as sewer line, or water lines, somewhere near their project. The program for the housing is not such that they can afford to bring lines—sewer lines and water lines—for long distances and still make available a low-cost house to the defense worker. Wherever those areas have occurred we are having trouble. I think that is one of our problems in San Diego.

Mr. McKINNON. Do you have any suggestion as to how that can be worked out?

Mr. BROCKBANK. Yes. We think this bill covers a good part of it if it is enacted. It is one of the most important parts of this bill, to make those community facilities available.

Mr. McKINNON. Would you comment on your experience down in Memphis on low-rent housing in relation to the suggestion that you made a moment ago?

Mr. BROCKBANK. Mr. Congressman, we have been working on three parts of the FHA program. We have been working administratively with section 207. That would make possible more low-cost rental housing, such as were built under 608 in Memphis. I hope the FHA is going to make administratively the changes necessary to make that work for low-cost housing.

Now, section 207 is mostly for builders that build in large groups, but there are a lot of builders in this country that could make some contribution to this rental problem if they could just build a duplex or two, or some single-family rental housing, but there is no tool available to them for financing housing in small quantities. We would like to have that made available.

Then this title I, section 8, would make low-cost housing for sale available.

Mr. McKINNON. You can find in many communities under this low-cost rental program lots, maybe one, two or three lots along the street that have been improved, but you cannot utilize those lots without a big community program going in.

Mr. BROCKBANK. That is right. We would like to see little builders build on those scattered lots. That is one of the most important parts of the bill, as we see it.

Mr. McKINNON. If FNMA steps into private housing do you think any limitations ought to be put in, like we do in public housing, where on all public housing the Government should not step in and finance any public housing which will house a Communist? Do you think that we ought to have any such test for private housing?

Mr. BROCKBANK. You have me on the spot there. I have never sold anyone that has any leanings of that kind that I know of. It is my personal opinion that most of us do business with good Americans.

Mr. McKINNON. And most people are good Americans.

Mr. BROCKBANK. That is right.

Mr. McKINNON. And the program, public or private, should not contain anything of that type?

Mr. BROCKBANK. I am not familiar enough to say, but in our country we deal with good, honest Americans, and I do not think it is a problem that merits any consideration of that kind.

The CHAIRMAN. If there are no further questions you may stand aside.

The CLERK. The next witness is Mr. Samuel E. Neel, of the Mortgage Bankers Association of America.

The CHAIRMAN. You may proceed, Mr. Neel.

STATEMENT OF SAMUEL E. NEEL, MORTGAGE BANKERS ASSOCIATION OF AMERICA

Mr. NEEL. I represent the Mortgage Bankers Association of America. Mr. W. A. Clark, one of our board of governors, would have been here but was detained.

I would like to have incorporated in the record, Mr. Chairman, the supplemental statement that the president of our association submitted at a round-table discussion on mortgage financing which the Senate Banking and Currency Committee had in February of this year in which these very same problems were discussed.

(The statement referred to above is as follows:)

SUPPLEMENTAL STATEMENT OF AUBREY M. COSTA, PRESIDENT, MORTGAGE BANKERS ASSOCIATION OF AMERICA

1. *The current structure of fixed FHA and veterans' guaranteed loan rates is not effective.*—At the hearings FHA Commissioner Richards stated that an effective interest rate is necessary if the FHA system is to function. In addition he stated that it has been FHA policy to maintain an effective rate and that when market conditions clearly indicated a change was required it would be authorized. Mr. T. B. King, the Director of the loan guaranty service of the Veterans' Administration, has also stated that the rate applicable to veterans' loans should be an effective one.

It is our opinion that a rate is effective only when it produces money for investment in these types of mortgages. Evidence introduced at the hearings we felt was conclusive that present interest rates in both the FHA and VA programs are not effective. There were two concrete illustrations:

(*a*) T. B. King admitted that funds for the VA program are "spotty and sparse"; and

(*b*) Senator Sparkman's question to the round-table participants asking how many had made title IX loans produced a dramatic silence, indicating that no investor present was making this type of loan.

Current FHA and VA rates are not effective because they are not competitive with the rates lending institutions are able to obtain on other types of securities. It was pointed out in the hearings by several witnesses that the cost of handling these loans totaled about eight-tenths of 1 percent composed of the normal one-half of 1 percent paid for servicing plus three-tenths of 1 percent home office expense. Commissioner Richards gave his opinion that the net yield after servicing cost on a typical 4.25 percent FHA mortgage would be 3.49 percent. After servicing cost of eight-tenths of 1 percent the net yield on a VA-insured mortgage with a 4 percent gross rate would be 3.20 percent and on FHA 4.25 percent loans 3.45 percent. Net yields of these percentages are not attractive today in competition with the rates offered on corporate securities. A number of illustrations can be given but the most significant one is the recent $300,000,000 issue of Union Carbide & Carbon Corp. debentures carrying a 3.75 percent yield. The FHA and VA yield to be made effective must be increased to be competitive with the rates investors are able to obtain in the general market. At this point we call your attention to the fact that action on interest rates by the administrative agencies earlier in 1951 would have saved the Treasury millions of dollars. FNMA early in 1951 was actively selling mortgages at profitable prices. In the latter part of the year FNMA purchases of loans have averaged $50,000,000 per month and in January 1952 they jumped to approximately $80,000,000. Practically no sales of these mortgages have been made.

2. *Effect of new tax laws on the supply of money available for mortgage investments.*—It is our opinion there are two changes in the recent tax laws which will have a material effect on the supply of money available for the purchase of Government-insured mortgages:

(*a*) The excess-profits tax: The Chairman of the Federal Reserve Board gave as his opinion that despite increased savings private financing demands for defense purposes and other capital demands would take a larger share of savings in 1952 than in 1951. In this connection the probable increase in demand for loan funds by corporations as a result of the excess-profits tax has not yet been recognized. There are probably two specific effects of this tax:

(1) Net earnings of corporations are greatly reduced, thus reducing the supply of money available for new capital expense. This fact alone will cause a substantial increase in the need for borrowed funds.

(2) It discourages the solicitation of new equity funds because borrowed money even at higher interest rates supplies a larger base for excess profits taxes and the interest paid is a deductible item. The effect of both these items is to make borrowing a profitable operation.

(*b*) Income tax levied on savings institutions: The application of a corporate income tax to mutual savings institutions and savings and loans associations will have a decided effect upon the investment policies of these organizations. Mutual savings banks in particular will find it advantageous to invest reserve funds in tax-exempt securities when otherwise they might be seeking mortgage investments. To illustrate, the recent issues of public housing bonds carry an average tax-exempt rate of slightly in excess of 2 percent which is equivalent to a net yield, after payment of taxes, on other types of securities of about 4.2 percent. Public housing bonds carry an equivalent guaranty to that given with both VA and FHA loans.

3. *Delay will imperil the success of the defense housing program and the continuity of the veterans' insured program.*—Up to the present time the administrative agencies have offered no proposal except to wait for a change in the money market. The agencies have held to this solution for nearly a year. We see no evidence that money conditions are likely to ease within the crucial period of getting the defense housing program underway. The question is one of great urgency and will not permit of further delay.

4. *Alternative methods for making the VA and FHA programs work.*—There are two procedures that can be used to make the Government-insured mortgage programs work:

(*a*) Government assistance by either increased congressional appropriations to FNMA for further over-the-counter purchases of FHA- and VA-insured mortgages; and for advance commitments for defense housing; or direct loans to be made by the Veterans' Administration; or

(*b*) An increase in interest rates to attract private investors into the Government-insured mortgage programs. Defense housing loans need two administrative changes which will:

(1) Increase the interest rate on debentures exchanged for foreclosed real estate from 2½ percent to a rate that will assure a sale of these debentures at par.

(2) Improve the waste provisions.

5. *Recommendations.*—We recommend the second alternative given above, namely, increased interest rates for the following reasons:

(*a*) It is desirable to have these programs effective at the earliest possible moment. Therefore, new legislation, if possible, should be avoided. The program we recommend for your consideration can all be done within the framework of laws now existing.

(*b*) Increased congressional appropriations of additional funds for FNMA operations or appropriations for direct Veterans' Administration lending create additional deficits and, as stated by Chairman Martin of the Federal Reserve Board, they are inflationary. We, therefore, oppose further appropriations for either of these purposes.

(*c*) Chairman Martin also stated that an increased rate of interest is not inflationary.

6. *Cost of increased rate to borrower.*—An increase in interest rate of one-half of 1 percent on a 25-year loan will increase monthly payments by 28 cents per thousand of loan (on an $8,000 loan the increased cost to the borrower would be $2.24 monthly). If the rate rises one-quarter to 1 percent the monthly payments will be increased 14 cents per thousand of loan (on an $8,000 loan the increased cost to the borrower will be $1.12 monthly). It is our opinion such increases would not adversely affect either the VA or the defense housing program.

7. *Conclusion.*—It is our opinion that increases in interest rates to match those obtained on corporate securities will produce sufficient funds from private sources to complete the present defense housing program and provide opportunities for veterans to purchase homes. This particularly applies to minority (racial) groups and to those rural areas not customarily served by conventional lenders.

Mr. NEEL. I would like to take issue with a statement in Mr. Foley's testimony where he said an increased amount of money necessary for FNMA at this time was "the only alternative."

Let me rephrase that. He said that "there is no other available alternative to the use of advance commitments in FNMA" for that purpose providing for defense housing loans.

Large parts of the bill, Mr. Chairman, we have no objection to, and I am limiting my remarks currently to sections of the bill that relate to additional funds for FNMA.

The Mortgage Bankers' Association, as an association of private investors, is opposed to any further appropriation for FNMA at this time. We think that further appropriations for FNMA at this time only postpone the inevitable decision which you gentlemen are going to have to make sooner or later as to how you are going to finance housing in this country. That decision has to be made sooner or later, and the more money you give FNMA simply means that you are going to postpone making the decision. We think that it ought to be made today.

The trouble arises, gentlemen, because you have yields on loans which are guaranteed or insured by the Veterans' Administration and the Federal Housing Administration; which are unmarketable and which are not competitive with the yields on other investments which investors, who are in the market for these loans, can invest in today. It is just as simple as that, in our opinion. It goes all the way back to March a year ago when the Federal Government pulled the plug out of the market on Government bonds. The yields on all kinds of investments from that point to this have been steadily rising,

except the yields on loans which are insured by FHA or the Veterans' Administration. They have remained constant because of the unwillingness of the Administration to allow rates on those securities to keep pace with those or other competitive investments.

At these round-table hearings that we had in the Senate it was made perfectly clear, I think, that there was adequate money except that it was going into different kinds of investments because the FHA and the GI rates were not competitive, and if you gentlemen would read those hearings I think that it would be made perfectly clear to you.

Let me read to you in connection with FHA loans, which these defense loans are, a statement of Mr. Richards, who is the Commissioner of the FHA. Here is what he said about interest rates on FHA loans:

> Now, insofar as the interest rate is concerned, I have never felt that there was any inalienable right on the part of anyone to a certain rate. I have felt that the FHA program was a purely voluntary program; and, to make it effective and workable, it had to provide an equitable and effective rate, and when I say "effective rate," I mean a rate that will bring out the money—a rate that is competitive. We set 4¼ percent under section 903 because we felt that it was an effective rate. I think, considering all the factors involved, it has thus far been a reasonably effective rate.
>
> However, if it could be demonstrated that we needed to go up to 4½ percent under section 603, or section 903, I see no reason why we should not raise it. In other words, Congress passed a law, they intended that it be an effective law, and we need an effective rate. The only question is whether that is 4¼ or 4½.

If it is effective, like Mr. Richards said it was, and he is the Commissioner, we do not see why you need an additional FNMA appropriation. But the fact is, it is not effective. It is not effective because the money is not coming out. The answer to the problem, in our opinion, of how to make it effective is not to put additional money into FNMA, which simply postpones the inevitable conclusion that you are going to have to reach sooner or later. The real answer is to make the rate effective. We think that Mr. Richards is right. We think that Congress did say the FHA program ought to work, and it will work if you have an effective rate, and that same thing is true of the loans guaranteed by the Veterans' Administration.

I do not say it is the easy or the popular thing to do. I think that our association has been consistent on this matter. It certainly is not an easy thing to do and it is not popular, but money is like any other commodity to us, and the prices on everything else have risen in the past 2 years. Secretary Snyder had to realize that when he increased not 3 months ago the rates that saving bonds carry. If it is applicable to savings bonds, which the Government wants investors to buy, why is it not applicable likewise to loans guaranteed by the Veterans' Administration or insured by the FHA?

In closing, I am simply pointing out this: that this does not require legislation. The FHA has authority to increase rates which will increase yields. As a matter of fact, so has the Veterans' Administration. You gentlemen gave it to them. You told them they could increase the rate up to 4½ percent if they needed to do it, but to date they have never done it. In my opinion, additional money in FNMA is simply an additional inflation and it will not do the job. If this job has to be done through FNMA, $900,000,000 is not a drop in the bucket. We have never opposed FNMA as such. We do think its

original purposes have been diverted. It now has $2,750,000,000 to buy loans with.

We think that, if you had an adequate rate and yield on investments of this caliber, FNMA could be a secondary stand-by market, as it ought to have been. For those reasons, very simply stated, we think that it would be a mistake to give them any more money at the present time. It will come up again and again and again, and you are going to have to face it eventually; we think now is a good time to do it. Let us get this situation with reference to what a commodity—namely, money—ought to sell for, down in black and white. It is no different from anything else, in our opinion.

Mr. WOLCOTT. They can raise the rate to 5 percent on FHA mortgages.

Mr. NEEL. That is correct.

Mr. WOLCOTT. It seems to me that Mr. Richards' statement is rather inconsistent.

Mr. NEEL. I think the facts have shown that the rate has not been effective, and I think they ought to make it effective. I think this money will be forthcoming within a rate that is within their power to fix. There is no question about it, in my opinion. The money is available and it will come out.

The CHAIRMAN. What do you think would be an effective rate?

Mr. NEEL. We have a good many statements from investors that a maximum on a GI loan of 4½ percent would give them all the money they could handle. On FHA loans, if you raised the rate a half from what it is, it would be 4¾. There are many people who do not think it would be necessary to raise it that much. We are talking about a rise between a quarter and a maximum of one-half percent. I would have to look these figures up to be sure about them; but, generally speaking, a raise of one-half percent on a veteran's loan of $10,000 would result in a veteran paying $2.33 a month more, and I will guarantee you gentlemen if he could do that and get his loan, it would cost him a lot less than it does today, because he now either gets less house for his money, or he is required to finance it by a conventional loan at a higher rate. The same thing is true of the defense-housing loan.

The CHAIRMAN. Do you not think there ought to be some flexibility, as an administrative matter, in the interest rate?

Mr. NEEL. There is flexibility in it now, but the flexibility to date has always been on the downward side. They have reduced rates all right, and they should have, but they have never been willing to put them back when facts and circumstances have indicated that they ought to go up. It is flexible only one way. It does not bend the other way, the way that it ought to, in my opinion.

Mr. MCKINNON. Did you say that if we increased the veterans' rate by one-quarter of 1 percent it would amount to $2.33 per home owner?

Mr. NEEL. Here is a statement submitted by Mr. Costa before the hearings on mortgage financing in the Senate committee [reading]:

> An increase in interest rate of one-half of 1 percent on a 25-year loan will increase monthly payments by 28 cents per $1,000 of loan. On a $8,000 loan the increased cost to the borrower would be $2.24 monthly.

Mr. MCKINNON. Many of these home purchasers, directly or indirectly, are giving points to get financing.

Mr. NEEL. That is the thing. No GI loan in the United States today, practically speaking—except in a few instances—is salable at par. They have to be sold at a discount to make up the differential, because it is not a marketable commodity.

Mr. MCKINNON. If the interest rate were increased by one-quarter of 1 percent, do you think that that would get enough competition in on the financing to eliminate the points that a man has to give today to get a loan?

Mr. NEEL. The figures vary. In the eastern part of the United States, where there is a lot of capital, a quarter of 1 percent would probably do the job well. In the far West, a half of 1 percent, which is the $2.44 figure I am talking about, would do the job, and investors have so indicated.

Mr. MCKINNON. The question that I have in mind is, even if we put the interest rate up by one-qarter of 1 percent, and with the mortgage money so tightly held by such a few groups, would it not be long before they would not be content with that small increase and would be demanding another increase?

Mr. NEEL. In the first place, you would be astonished, I think, at the great number of investors who buy these loans. You would be surprised at the tremendous number of insurance companies all over the United States and the Federal savings and loans associations in every little community that go out to make these investments. All these people are looking for is a competitive investment. If they can go out and buy a highway bond, for instance, like they did on the New Jersey Turnpike that has a tax-free yield of 3¼ percent, or if they can buy some AAA bonds that net them 2 and 3 points better than they can net under a GI loan, even if they are traditionally used to making mortgages, they are not going to do it.

What they are looking for is yield, and you would be surprised at the rapidity that money would flow into all of these mortgages, defense loans, GI loans, and any other kind of loan if they were made a marketable commodity. The price at which that commodity is marketable is not determined by any two or three individuals; it is determined by the market. No two or three individuals have anything to do about it.

Mr. MCKINNON. That may be true, but it is a peculiar thing regardless of how many Federal savings and loan associations you may have, they all go to a few central sources of money, and it is peculiar to me that when you travel to one point in the United States these owners of Federal savings and loan associations will tell you that when they go back to a mortgage bank or broker the terms and conditions from one to another are so similar as to lead them to believe that there is an understanding among them as to what their terms are. It may be simply coincidence, but it appears they get together and set certain terms and conditions upon which they lend their money.

Mr. NEEL. I must disagree to that, politely, for I do not think that is true. I think the price at which a loan is salable——

Mr. MCKINNON. That price happens to be the same throughout the whole industry.

Mr. NEEL. No; it is not. A GI loan on a house located in the vicinity of New York is salable at a different price than one located in the city of San Diego.

Mr. McKINNON. The point that I am making is that the conditions of the loan in New York are the same from one banker to another banker. The same in San Diego. It may vary according to geographical districts, but within a district the terms are about the same, one bank to another bank.

Mr. NEEL. In a district they would have to be because they have to meet competition. All these loans are made on a standard form.

Mr. McKINNON. I have not yet been sold on the idea that increasing the rate by one-eighth or one-quarter of a percent would turn loose an awful lot of money. It might turn loose the money for a while, but the next thing you would know there would be another demand for another increase in order to get a new flow of money.

Mr. NEEL. This thing is governed to a large extent, we feel, by the fluctuations of the money market. Interest represent what it costs to get money, and interest rates have fluctuated in this country's history up and down. Since March a year ago the trend has all been up on yield and on rates. It was the reverse prior to that. Right after the war you had banks and insurance companies and savings and loan companies doing everything they could to get their money out. They were practically paying you to take the money. The situation is the reverse today. When the other situation existed, the Federal Government very properly reduced rates. The FHA consistently has reduced the maximum rate which its loans would bear. The Veterans' Administration has not done it because it was fixed in the beginning at 4 percent, which was even low at the time.

Now, when the wheel has reversed itself, and when throughout the country generally rates have started to go up, we find no willingness on the part of these agencies to follow the trend, even though Mr. Richards says that is what he would be willing to do.

Mr. McKINNON. You are asking for a bigger percentage increase than almost any other type of return has had in the past 3 or 4 years; are you not?

Mr. NEEL. No; I do not think so. I did not specifically ask for a one-half of 1 percent increase. Our feeling is that, within the ceilings as set by law, 4½ percent on VA loans and FHA also, there should be a willingness to let these rates find whatever market level is required to dispose of a VA loan at par. I think that it would be at or less than 4½ percent. It would certainly be more than the current rate because the loans are not marketable at the current rate. The market does not want them at that rate. The market is not anything that a few people make; it is what the whole industry makes. Secretary Snyder found that out when he could not sell the savings bonds at the old prices.

Mr. McKINNON. The industry seems to determine the rate a whole lot by discussions between themselves, and then they agree to certain terms and they do not lend money unless those terms are met.

Mr. NEEL. I do not agree with that. They do not determine the rate and they do not agree amongst themselves.

Mr. WOLCOTT. If they did that, they might go to jail.

Mr. McKINNON. You would have to prove it first.

The CHAIRMAN. We thank you very much.

The CLERK. The next witness is Mr. George L. Bliss, representing the United States Savings and Loan League.

The CHAIRMAN. We will now hear from you, Mr. Bliss.

STATEMENT OF GEORGE L. BLISS, CHAIRMAN OF THE LEGISLATIVE COMMITTEE, UNITED STATES SAVINGS AND LOAN LEAGUE

Mr. BLISS. My name is George L. Bliss. I live in Mount Vernon, N. Y., and I appear as chairman of the Legislative Committee of the United States Savings and Loan League. With me is Mr. A. D. Theobald of Peoria, Ill., who is vice chairman of the committee.

The membership of the United States Savings and Loan League embraces some 3,800 building and loan associations, savings and loan associations, homestead associations, and cooperative banks located in every State. In point of volume of business done and in total resources, they comprise approximately 90 percent of the industry.

H. R. 6102 is a bill which would affect the lending power of the Federal savings and loan associations, of whom there are about 1,500. Of that number some 1,300 are members of this league.

The authority for the chartering of Federal savings and loan associations is contained in sections 5 and 6 of the Home Owners Loan Act of 1933. That legislation was supported by the United States Savings and Loan League and we feel that the record of service of these institutions has well justified the enactment of that law nearly 19 years ago. It has been a characteristic of building and loan association operation that the primary investment of the funds of these mutual, cooperative, thrift institutions should be in home mortgages within their own communities and such adjacent territory as can be provided with reasonable inspection and supervision. Depression experience has demonstrated that loans on properties at some distance from the home office are subject to greater hazards of waste and vandalizm in the event of foreclosure, and cannot be serviced as efficiently and economically.

With that background, may I point out that the Home Owners Loan Act contains a restriction on lending area, to wit: That these associations may not place mortgage loans upon eligible properties located more than 50 miles from their home office, except that a reasonable flexibility is provided in authorizing the management of any such association to invest a sum equal to 15 percent of its resources without regard to this and certain other limitations.

In the Servicemen's Readjustment Act of 1944, there is included language which has been construed to permit Federal savings and loan associations to make GI home loans without regard to the area restriction and without regard to the 15 percent limitation.

The pending bill would further amend section 5 (c) of the Home Owners Loan Act by waiving both the area restriction, and the 15 percent limitation, with respect to the purchase (but not the origination) of first-mortgage loans insured by the Federal Housing Administration.

This bill was not proposed by our organization. We have not found among our membership any substantial evidence of interest or support for it. On the contrary, we are confident that the vast majority of our membership believes that, save for a reasonable exception such as is provided in the 15 percent rule, our associations should confine their lending activities to their normal operating areas. In section 5 (c) of the Home Owners Loan Act, they are empowered to invest no more than 15 percent of their resources in loans on other than home properties, in amounts greater than $20,000, and without regard to the 50-mile limitation.

Acting under its powers, however, the Federal Savings and Loan Insurance Corporation has, by regulation, limited the right of Federal savings and loan associations to exercise all of the powers given to them by section 5 (c) of the Home Owners Loan Act. In its regulations, that Corporation provides that no insured association shall make any loan on properties located more than 50 miles from its home office without the prior written approval of the Corporation.

The Corporation has, by regulation, granted automatic approval for the making of FHA loans within 100 miles of an association's main office, but subject to the 15-percent rule, and has recently published notice of a proposed revision of this regulation, which would have the effect of eliminating this 100-mile restriction. A hearing on this proposed regulation is scheduled for tomorrow.

At that hearing, we shall urge that the Corporation revise its regulations so as to restore to Federal savings and loan associations their basic statutory power to invest up to 15 percent of their resources in such mortgage loans as the management of each association deems proper, without restriction as to area or type of mortgage loan. It is our opinion that if this recommendation is accepted by the Corporation, there is no need for any amendment to the act.

If there has been brought to the attention of your committee evidence that the present area limitations upon the investment powers of Federal savings and loan associations are so restrictive as to result in injury or in unwisely restricting the extension of the services of these institutions to communities or areas where a need exists, we would suggest a broad study of all of the investment powers of these institutions, rather than the lifting of a restriction upon a single type of loan. In the making of such a study, we would be very glad to make the full facilities of our organization available.

Or, if it be that this bill has been drafted with the idea of facilitating the flow of mortgage funds into critical defense-housing areas, we would suggest that in meeting such a need three provisions should be incorporated: (1) that the lifting of present area restrictions should apply to all types of loans, and not simply to those insured by the Federal Housing Administration; (2) that the lifting of such restrictions should apply only to loans on properties located in critical defense-housing areas, as designated pursuant to the authority contained in the Defense Housing Act; and (3) that a time limit should be imposed, coinciding with the expiration of the Defense Housing Act.

I have a statement here by the United States Savings and Loan League that I would like to insert in the record at this point.

(The statement referred to is as follows:)

STATEMENT BY UNITED STATES SAVINGS AND LOAN LEAGUE

The United States Savings and Loan League appreciates the opportunity to state its views on S. 3066 on behalf of its 3,900 savings and loan, building and loan, and cooperative bank members. Mr. George L. Bliss, who is chairman of our legislative committee, participated in the mortgage round-table discussions before this committee in February and therefore may of our views on the general mortgage situation have been previously expressed to the committee.

Savings and loan associations, of course, have a vital interest in any legislation affecting housing and home financing. Our institutions constitute the largest single source of home mortgage credit. In 1951, for instance, savings associations loaned $5.3 billion, or 32 percent of the total loaned by all mortgagees on home mortgages. Our associations have advanced nearly $5 billion in GI loans, or roughly one-third of the total under this fine program of home ownership for veterans.

Our particular concern with the Housing Act of 1952 is with the general impact of the tremendously enlarged Federal aids to financing on the financing market and on the economy of the Nation. We are not the leading authorities with respect to the FHA and FNMA provisions of the bill since our institutions deal primarily in conventional loans which are held in our own portfolios. Approximately 70 percent of our loans are completely uninsured, nonguaranteed loans. About 23 percent of our loans are GI loans, and only 7 percent are FHA. It is an interesting fact that savings and loan associations are the only type of lending institutions with more GI loans than FHA loans. In fact, we have three times as many GI loans as FHA loans while all of the other major lending institutions hold more FHA than GI loans.

Of the $15 billion of home loans recorded by savings and loan associations in the last three calendar years, it is estimated that less than 3 percent have been sold to the Federal National Mortgage Association; so we have not relied upon the Government secondary market in the past, and so far as we are concerned the Federal National Mortgage Association need not be extended nor given additional authority.

This bill and our statement relating to it can be divided into two portions; that dealing with defense and military housing, and that dealing with home financing generally.

We are certainly in full support of necessary measures to meet the defense and military housing needs of this country. Since most of the financing of these defense homes is through the FHA program which is such a minor portion of our lending program, and since the bulk of it involves rental housing in contrast to our concentration in home ownership, we cannot profess to be experts as to the measures needed to stimulate the construction of programed housing in defense areas. Institutions which do specialize in FHA loans and in rental housing have stated their objections to the rate of interest and some of the procedural requirements, and perhaps some changes in line with these objections would stimulate these institutions to increase their lending in defense areas. Surely it would seem that some effort to improve the attractiveness of these FHA loans would be in order before taking the inflationary step of providing $1.3 billion in additional FNMA credit.

We respectfully submit that from the record, the home-ownership phase of the defense-housing program appears to be a substantial success. As of April 16, 20,600 housing units had been programed for sale. Against this program there have been filed 69,000 applications and 17,583 of the applications have been approved. This means that only 3,000 homes in the entire country have been programed by the HHFA for which there are not now approved building applications. Considering the fact that many of the programs are only a few weeks old, this small number of 3,000 units is certainly no problem. If there is a great shortage of defense housing, it must be that the houses have not been programed by the HHFA in the year since the passage of the Defense Housing Act.

Similarly, it is impossible for us to relate the requests in this bill for funds for direct construction of defense housing and community facilities to the record. Since the passage of the Defense Housing Act a year ago, only $25 million of the original $50 million has been appropriated for defense housing—largely trailers—by the Government. This bill requests eight times that amount—an additional $200 million. The amount appropriated to date for community facilities is only $15 million, whereas the present bill requests another $100 million, or six times that amount. We are sure, however, that the committee will not authorize such expenditures during this time of great concern with Federal expenditures unless and until it is thoroughly satisfied of the urgency of the need for these very large sums.

With respect to the general mortgage market, we reiterate the position expressed before this committee on February 8, that there are ample funds available to meet the home financing needs of 1952. The chairman of the Federal Reserve Board has estimated that it will take about $13¼ billion for home mortgages in 1952. Our institutions will have at least $5½ billion available and all other types of lenders, who in the past 2 years have loaned about $11 billion a year, will certainly be able to provide the remaining $8 billion.

The general agreement among Government and industry leaders that the so-called target for home building for 1952, 800,000 units, will be easily surpassed, is another indication that there is ample mortgage money available. Surely Congress and the Federal Reserve would not maintain regulation X, which is for the sole purpose of reducing the amount of credit, if there was not an ample supply of credit. It is quite a paradox to suggest that there is a shortage of money at the

same time the laws of the country are based on the premise that there is an excess of mortgage credit which must be curbed by credit controls and voluntary credit-restraint programs. If there does develop a relative shortage of money, then the first and obvious step is the removal of credit controls.

With an ample supply of mortgage credit available generally, and with an unanimously accepted need for reduction of nonessential expenditures, it is difficult to see why any additional funds should be authorized or approved for use in nondefense areas, particularly if the life-insurance companies and banks are willing to make loans on their own risk such as savings associations are doing. Therefore, we cannot support additional authority for FHA except as it would be limited strictly to defense and military housing, which this bill does not do; and we cannot support any additional funds for the Federal National Mortgage Association which are not strictly limited to defense and military housing. We recommend that the committee determine the amount of additional authorization required by the FHA for insuring actual defense and military housing loans and that only that amount be authorized. We recommend that the funds for FNMA be restricted solely to purchase of defense and military housing loans.

Mr. BLISS. I would just like to mention, Mr. Chairman, briefly the point at issue with respect to this section 12.

Federal savings and loan associations under the provisions of section 5 (c) of the Home Owners Loan Act are authorized, or rather are restricted that they shall lend their funds only on the security of their shares, or on the security of first liens upon homes or combinations of homes and business properties within 50 miles of their home office, provided that not more than $20,000 shall be loaned on the security of a first lien upon such property. Except that not exceeding 15 percent of the assets of such association may be loaned on other real estate without regard to said $20,000 limitation and without regard to said 50-mile limit.

Now, the statute relating to the Federal Savings and Loans Insurance Corporation, in section 403 (b) of the National Housing Act, provided that each applicant for such insurance shall also file with his application an agreement that during the period the insurance is in force it will not make any loans beyond 50 miles of its principal office, except with the approval, and pursuant to the regulations of the Corporation.

It is our understanding that the purpose of the latter of these two provisions was in order that the Insurance Corporation, which insures savings accounts in some 2,700 savings and loan associations throughout the country, both federally chartered and State chartered, would provide a uniform national standard, and presumably that standard would be that which Congress has already put into law for Federal savings and loan associations; namely, that 15 percent of the assets might be loaned, but under its power to issue regulations, the Federal Savings and Loan Insurance Corporation has, in section 1369 of its regulations, provided that except as hereinafter authorized, no insurance institution may make or invest its funds on the loan located more than 50 miles from its principal office, and outside the territory without the prior written approval of the Corporation.

It has issued an exception in the case of FHA loans at the present time, so far as territory is concerned provided that such loans are made within the 15 percent of assets. It is our position that the Congress has authorized Federal savings and loan associations under the statute to lend 15 percent of their assets without restriction as to area upon the discretion of management, and that we expect the regulations of the Federal Savings and Loan Insurance Corporation to be put consistent with that statute, and if that be done there is no need for further legislation.

If the time approaches that it is found that the 15 percent of assets proves inadequate, that it be met by raising that 15 percent to 20 or 25 percent, or whatever figure in the judgment of Congress may be appropriate to the circumstances.

Mr. WOLCOTT. I understand that section 12 of the Senate bill restricts you to operations within a 50-mile area with respect to purchase of insured FHA loans and veterans' loans.

Mr. BLISS. No. Section 12, I might point out, was added by amendment in the Senate without a hearing held on that issue.

Mr. WOLCOTT. What is your objection to it?

Mr. BLISS. Our objection to it, sir, is that the Federal savings and loan associations now have a statutory power to invest 15 percent of their assets without restriction, but the Federal Savings and Loan Insurance Corporation, acting under another law, has limited that right by saying that it may not be exercised in prior approval—except in a couple of instances where they have given approval. Since prior approval is required, it is practically inoperative because association management cannot go ahead on that basis. It has to come down and get permission for every loan. If the Federal Savings and Loan Insurance Corporation will remove the restrictions it has placed on a grant of power by the Congress, our association will have enough latitude within which to operate. That is the considered judgment of the committees of our organization.

This is not a power that we have asked for. Our institutions are local in character and we believe that they should be kept local in character.

The CHAIRMAN. This would permit them to purchase FHA mortgages beyond the 50-mile limit?

Mr. BLISS. Anywhere in the country.

Mr. WOLCOTT. Do you want that?

Mr. BLISS. No, sir. We think within the 15 percent, Mr. Congressman, our associations can do that by statute. We do not believe that the 15 percent ratio should be lifted arbitrarily as to any single class of loans.

The CHAIRMAN. We discussed that before when we had the bill before the committee. You can supplement your statement in any way that you please.

The CLERK. The next witness is Mr. Oscar R. Kreutz.

The CHAIRMAN. We will hear from you, Mr. Kreutz.

STATEMENT OF OSCAR R. KREUTZ, EXECUTIVE MANAGER, NATIONAL SAVINGS AND LOAN LEAGUE

Mr. KREUTZ. I have a prepared statement that I would like to insert in the record at this point.

The CHAIRMAN. Without objection it will be made a part of the record at this point.

(The statement referred to is as follows:)

STATEMENT OF OSCAR R. KREUTZ, EXECUTIVE MANAGER, NATIONAL SAVINGS AND LOAN LEAGUE

My name is Oscar R. Kreutz. I am executive manager of the National Savings and Loan League of Washington, D. C. I thank the committee for the opportunity to testify in regard to S. 3066. The National League has nearly 700 members whose savings and loan assets aggregate more than $4 billion. Our

membership is about evenly divided between State-chartered and federally chartered associations although the State chartered have a slight edge in numerical strength.

Last year savings and loan associations made loans aggregating $5¼ billion, mostly to finance medium- and low-priced homes. At the present rate the 1952 volume will run $5½ billion.

We recognize that the primary purposes of this bill are to provide reasonable assurance that funds will be available to finance defense housing where needed. We are in accord with these purposes.

We regret the necessity of calling on the Treasury for any funds to finance housing either directly or indirectly. We wish it were possible for private financing to take care of defense area housing as well as other housing to be built this year. There are certain elements present in defense housing financing which, however, indicate the need for some Government assistance. One of these is the risk factor which has made it difficult for builders to obtain adequate advance commitments to permit them safely to proceed with the construction of large housing projects in many defense areas. The authorization as proposed in this bill for FNMA purchases and commitments should meet this situation.

Interest rates are another factor in the supply of funds for defense housing as it is in the supply of funds for veterans' housing. We believe, for example, that if interest rates on veterans' loans were permitted to rise to the point already authorized by Congress, there would be very little, if any, shortage of funds for veterans' housing anywhere in the country.

There is still another way to minimize the demand on the Treasury for the use of public funds to finance defense housing. Section 12 of S. 3066 would do this. Section 12 would do exactly what H. R. 6102, now pending before this committee, would do. Section 12 would permit Federal savings and loan associations to purchase, subject to all existing restrictions except the area restriction, FHA-insured loans.

At the present time Federal associations are restricted to the use of 15 percent of their assets for the purchase of loans situated beyond 50 miles from their home offices and for other types of investments. However, Federal associations may, under a provision of the Servicemen's Readjustment Act, invest in veterans' home loans without regard to the 50-mile limit provided at least 20 percent of the loan is guaranteed. Section 12 of S. 3066, incidentally, would also authorize Federal associations to acquire veterans' loans which are insured as provided in the Servicemen's Readjustment Act of 1944 as well as those which are guaranteed. Apparently this is to correct an oversight when authority for Federal associations to purchase guaranteed loans was approved by the Congress.

I should like to emphasize that while Federal associations have authority to invest in, and therefore originate, VA-guaranteed loans, section 12 of S. 3066 would authorize them only to purchase FHA- or VA-insured loans. This limited authority would avoid the possibility of large institutions going a long way from their home offices to enter into competition with local institutions for the origination of FHA- or VA-insured loans. Under section 12 of this bill, Federal associations could only purchase these loans from local institutions. We understand that the Home Loan Bank Board would also require that adequate servicing arrangements would have to be entered into between the purchasing association and a local institution.

As I said earlier, section 12 of this bill is like H. R. 6102 on which a hearing was held by this committee on March 20, 1952. At that time a question was raised as to the necessity for enactment of H. R. 6102 when the Home Loan Bank Board had not removed regulatory restrictions on the purchase of FHA loans beyond 100 miles from an association's office (but within the 15-percent-of-assets limitation). However, a hearing before the Home Loan Bank Board on such a proposed change in its regulations was then pending.

Subsequently the Home Loan Bank Board did amend the rules and regulations for insurance of accounts so as to permit any insured association to purchase an FHA loan anyplace in the United States, provided it is to be serviced by an institution insured by the Federal Savings and Loan Corporation and located in the area where the loan was originally made. Thus the amendment to the insurance regulations eliminated the previously existing 100-mile limitation on the purchase of such loans. However, the 15-percent-of-assets limitation, being statutory, still exists. It is that limitation which would be removed by section 12 with regard to purchases of FHA- or VA-insured loans just as the Congress previously eliminated the 15-percent-of-assets restriction with regard to the investment in VA-guaranteed loans situated beyond 50 miles from an association's principal office.

We are in favor of section 12 of S. 3066 because it would permit the flow of funds from areas of excess supply to areas of short supply of money for home financing. Each Federal association would of course have to decide whether or not it would take advantage of this proposed authority. While most associations would probably not be interested for the time being in purchasing FHA loans beyond 50 miles, at least in any great volume, we do know that some associations would be interested in doing so. To the extent that such associations made money available in areas of short supply, including defense housing areas, there would be that much less call made on the Federal Treasury for funds for the purchase of mortgages by FNMA.

Section 12 has received the support of the Home Loan Bank Board which is charged with the responsibility of supervising Federal savings and loan associations. It also has received the support of the Federal Housing Administration and of the Housing and Home Finance Agency.

We recommend that section 12 of this bill be approved by this committee and by the House.

Mr. KREUTZ. I would like to explain why we have supported this section 12, which is identical to H. R. 6102. We recognize that it is a means of minimizing the use of Treasury funds for the purchase of mortgages.

During the hearing on March 20 when we supported H. R. 6102 the point was made, as it has been made today, by my old friend, Mr. George Bliss, there was no need for this amendment because, as he pointed out, there was a restriction in the regulation of the insurance corporation which required the approval of the corporation in specific cases where associations wanted to buy FHA loans beyond 100 miles. That was true. That was when there was then pending a hearing before the Home Loan Bank Board on the question of amending that insurance regulation. The hearing was held and the regulation was amended so as to remove the 100-mile limitation in the purchase of FHA loans by a Federal association.

However, that still kept on the territorial restriction through the percentage of assets limitation; that is to say, Federal associations were still unable to buy FHA loans beyond 50 miles except as those loans, along with certain other investments, came within the 15-percent-of-assets limitation.

The Home Loan Bank Board testified on H. R. 6102 in favor of the change in the statute which would permit Federal associations to purchase FHA loans as well as the VA-guaranteed loans which they now have the authority to purchase beyond 50 miles, and without regard for the 15-percent-of-assets limitation.

As I said, we favor this because we think it would reduce the demand on the Treasury for money. We think that it would encourage sales because it would permit the flow of money from those areas where funds are in excess supply to areas where funds are in short supply. We do not expect that in the beginning at least a very large number of associations will take advantage of it. We do know that some would, and to the extent that some Federal associations would purchase FHA loans beyond 50 miles, just as they now have the authority to purchase VA-guaranteed loans beyond 50 miles, then it would reduce the demand on the Treasury for funds for the purchase of these mortgages through FNMA, and we think that is a good purpose.

Mr. WOLCOTT. Is there a distinction between the veterans' insured loans and the guaranteed loans?

Mr. KREUTZ. There is a distinction. Under the Servicemen's Readjustment Act most of the loans are guaranteed, but there is

provision for the insurance of loans by the veterans' Administrator, and when the Servicemen's Readjustment Act was amended to permit Federal associations to purchase loans at least 20 percent of which are guaranteed, and without regard for the Territorial limitations——

Mr. WOLCOTT. I see. The 20 percent is a guaranty and the other 80 percent is insured. That is the double guaranty that you were talking about.

Mr. KREUTZ. Is it not an alternative arrangement?

Mr. WOLCOTT. To qualify under title II of FHA we used to think that a veteran could get from the banks a guaranteed loan for 20 percent which he would have to pay down and he would get an insured loan of 80 percent.

Mr. KREUTZ. That is the combination loan, I believe, but in addition to that there is the direct provision in the GI bill which would permit the Veterans' Administration to insure loans under certain conditions, and in addition to the provision for the guarantee of loans under section 501, and under the authorization to Federal associations to buy VA guaranteed loans, the language is at least 20 percent of which is guaranteed.

In other words, there might be a 100 percent guarantee, but at least 20 percent of the loan would be guaranteed before the Federal association could buy it without regard to the 50-mile limitation. That same kind of authorization, it seems to us, should run also to the purchase of FHA loans, but there again there is a distinction that is important. The authority that goes to Federal associations to purchase VA-guaranteed loans reads:

"Invest in," and they could go out and compete locally in the origination of these loans, whereas this section 12 would only authorize these associations to purchase FHA loans, which means they would have to go to a local institution where there is a short supply of money and buy the loans which the local institution originates, and under regulations which the Home Loan Bank Board has indicated it would promulgate which would require the servicing of the loan by an institution insured by the Federal Savings and Loan Insurance Corporation.

We think that that distinction is important. We do not think these associations should be permitted to go in anywhere they like and originate the loans and come into competition with the local institutions, and this would not allow them to do that. They would have to buy the loans from a local institution.

Mr. MCKINNON. Why would that competition be a bad thing?

Mr. KREUTZ. It might not be, but on the other hand, we do not see a need for it.

Mr. MCKINNON. Did we not hear a witness a few moments ago say that there are a few areas in the South, the Southwest, and the Pacific coast, where there was a deficient money supply and that there are other areas where money is available, and if the money from the areas where money is available were to move to those areas where there is a deficiency, would that not be a good thing?

Mr. KREUTZ. This would permit that. It would encourage the flow of money from those areas.

Mr. McKINNON. But only through a local institution. Why could not they go direct and form another source of competition for home construction?

Mr. KREUTZ. So far as Federal savings and loan associations are concerned, it would be a type of business foreign to their nature; they should not do it so far away and originate loans, and they would not have the facilities to do it. I do not think that they would be interested in doing that. Some might be, but I doubt if many would.

Mr. McKINNON. It would not hurt to have the provision allowing it, because they would not have to do it if they did not want to do it. It would provide excess funds in deficient areas for more home construction.

Mr. KREUTZ. I suppose so, yes, sir; although we suggest that it would be better to try this thing on the basis of a purchase. I might say, if it were proposed here to authorize Federal associations to go into these other communities and originate the loans, there would be a lot more opposition to the proposal than there is.

Mr. NICHOLSON. Did we not pass a law this year allowing them to go beyond a certain distance?

Mr. KREUTZ. You considered this same proposition, but as I understand, the matter was held over because there was pending this proposal to amend the insurance regulations to remove one of the restrictions already in existence. I do not know what happened to it after that.

Mr. NICHOLSON. I thought we passed it.

Mr. KREUTZ. I think it was only considered; yes, sir.

Mr. McKINNON. What I cannot understand is simply this. You and a great many other Americans who come before this committee advocate free enterprise, the competitive system. If we want competition, let us get all we can get. Why should we set up artificial barriers that might discourage home construction, since financing is such a difficult problem in that connection? What is wrong with competition?

Mr. KREUTZ. I think nothing is wrong with it, but we suggest that this particular provision would be a step in the right direction in that it would do the thing that you are interested in. It would attract funds from areas where they are in excess and supply them to areas where they are in short supply.

Mr. McKINNON. If you put in certain limitations, such as a differentiation between the FHA and the Veterans' Administration programs, on the investment of funds, then you are limiting competition; are you not?

Mr. KREUTZ. You are; yes, sir. And that differentiation exists today as between Veterans' Administration guaranteed loans and FHA loans made by Federal associations.

Mr. McKINNON. Why would it not be a good thing to strike out that limitation?

Mr. KREUTZ. We are recommending that the distinction be eliminated and that Federal associations be permitted to buy FHA loans just as they are permitted to buy GI loans.

Mr. McKINNON. But within prescribed geographical limits?

Mr. KREUTZ. No; under this provision they may buy them anywhere in the country.

Mr. McKINNON. Not invest in them, only buy them?

Mr. KREUTZ. Yes, sir.

Mr. McKINNON. Why not let them invest in them instead of just buying them?

Mr. KREUTZ. Our people would like an opportunity to study that proposition further. They are in favor of this as it stands but they would like to study that other.

The CHAIRMAN. There would be a lot of obstacles in the way of investing far away from home.

Mr. KREUTZ. It would be very difficult and, as I pointed out, I think very few institutions would be interested in doing it.

The CHAIRMAN. If there are no further questions, you may stand aside and the committee will adjourn, to meet at 2:30 this afternoon.

(Whereupon the committee adjourned, to meet at 2:30 p. m.)

(The following statements were submitted to the committee for inclusion in the record of the hearing:)

STATEMENT OF CALVIN K. SNYDER, SECRETARY, REALTORS' WASHING ON COMMITTEE OF THE NATIONAL ASSOCIATION OF REAL ESTATE BOARDS

Mr. Chairman and members of the committee, I am Calvin K. Snyder, secretary of the Realtors' Washington Committee, National Association of Real Estate Boards. Our offices are located at 1737 K Street NW., Washington, D. C., and 22 West Monroe Street, Chicago, Ill. Our membership consists of 1,125 local real-estate boards and 47,883 individuals and firms of realtors throughout the country. Our membership is engaged in every phase of the real-estate and construction industry.

We appreciate this opportunity to submit our views on S. 3066 on behalf of the National Association of Real Estate Boards.

There are several motivating factors which prompt the submittal of this statement.

First, we stand firmly on our previous statements that we are ready to do everything possible to help provide defense and military housing. Our association is already working Nation-wide toward that desirable end. We believe the way to solve defense housing problems with the greatest speed and least inflationary effect is to take Government shackles off home seekers and the home-building industry. Specifically, we commend most earnestly to the consideration of the committee the following positive and constructive program.

1. Permit interest rates on FHA-insured and VA-guaranteed home loans to seek their own level within present statutory limits.

2. Provide for a flow of private credit by removing the now indefensible credit controls in effect against home buyers and builders, which action this committee already has recommended.

3. Assist seekers of rental homes and renew confidence in the rental home industry by ending the discriminatory 10-year freeze of rental owners' incomes.

The interest rate issue will be dealt with later in this statement.

On the issue of credit controls—since the dropping of the Voluntary Credit Restraint program May 5 and the removal of regulation W May 7, the discrimination against home buyers and builders contained in the real-estate credit controls is too glaring to go unnoticed. Surely the Congress will not support a policy that says home ownership is more inflationary and less desirable and less necessary than some of the more expendable items now allowed to be offered freely to American citizens. Many persons now saving to buy homes may be so discouraged by a prolongation of controls against home buying that they will spend the money saved for other purposes. We do not wish any discrimination against other products offered by American industry. At the same time, we must underline the present unfair deterrents to home ownership contained in the real-estate credit controls.

We wish especially to improve and increase the rental housing supply. The incentives to provide rental homes through conversions and new construction to be gained by restoring free bargaining between users and owners of rental dwellings are so clear now in this period of high earnings and great mobility that we hope

the Congress will allow rent controls now pending before it in another bill to end no later than June 30 of this year.

Second, by way of generalization, regardless of the pros and cons of the bill's several items, the ultimate effect is the pouring of $900 million into an economy already straining at the bonds which separate it from disastrous inflation, in addition to another $400 million insuring authorization for FHA.

We respectfully suggest that the time has come when this committee, as well as the Congress, mindful of its constitutional responsibilities, must seek a reevaluation of its previous actions which have unfortunately pointed to more and more Government and more and more of the taxpayers' purse as an allegedly essential stimulant to the housing industry of this country.

We, therefore, question generally the soundness of the premise upon which this bill is based that $1.395 billion in Government funds and support is needed to provide housing for defense workers and military personnel.

$1,300,000,000 MORE FOR FNMA

Let us first examine closely the logic or lack of it which prompted the request in the original bill for an additional authorization of $1,300,000,000 for FNMA.

When the bill was introduced April 24 only one reason was advanced for the nonavailability of credit for defense housing from the major sources of permanent mortgage funds, based on the mortgage round-table conference held by the Senate Banking Committee in early February. This reason was that such sources (insurance companies, other institutional investors, etc.) considered defense housing to be more risky from the standpoint of long-term marketability. This contention was dismissed as being without merit. We thus have a situation where the contentions of private mortgage sources are rejected and instead an additional $900,000,000 FNMA authorization is under consideration by this committee as being all that private mortgage sources need to enter the defense-housing picture.

The principal reason for the tight mortgage situation stressed by every non-Government participant in the February round-table conference before the Senate committee, was the unrealistic pegging of FHA and VA interest rates. Throughout the record of the conference runs this theme: Let the market determine the interest rate and mortgage money will be made available.

The Government witnesses at the hearing stated that the present FHA and VA interest rates are effective. If they are truly effective, then this request for $900,000,000 to tempt private capital to enter the defense-housing program should not merit serious consideration. We strongly urge that the Congress stop treating only the symptoms of our present mortgage difficulty and go to the root of the trouble. If the Congress approves this $900 million, it will do no more than put off until next year the day when it must meet the interest-rate problem face to face. We hope that this committee will reject the temporary palliative provided by this bill and move forthrightly to the only solution which by now must be apparent to impartial observers of the mortgage situation.

Recently the National Association of Real Estate Boards undertook a survey of the mortgage market by canvassing its more than 1,100 real-estate boards. (A copy of the survey form is attached.)

Three hundred and seventy-nine survey forms covering 47 States and the District of Columbia have been completed and returned to our office. This is an interim report giving the mortgage picture at the present time. We respectfully commend to the committee's attention the results of this survey. (A summary of the returns is attached.)

An examination of these returns reveals that 5 percent is the median interest rate on conventional loans throughout the United States. What is most significant is the fact that of 379 communities reporting only two made any mention of FNMA as a possible partial solution to the mortgage situation.

Let us turn for a moment to the critical area housing-construction picture and how it has been thwarted by the FHA and VA pegged interest rates.

Nine months have elapsed since Public Law 139 was enacted. During this period nonprogramed housing in critical areas has been constructed and completed in almost record-breaking numbers. In the same period (up to May 14, 1952) 80,915 units have been programed under the Defense Housing Act. Of these only 16,524 units have been put under construction and only 3,018 completed. Thus we have a defense housing program supposedly stimulated by special legislation such as relaxation of credit restrictions, FHA title IX, and supervision and

assistance by Government housing agencies. Yet, this program is running a poor second to nonprogramed housing.

Is the answer to be the inflationary gesture of adding $900 million to the public debt and tossing it into an already inflation-troubled economy? Or will the committee and the Congress, instead, face the economic facts squarely and call a halt to the unfortunate reluctance on the part of Government to let the market determine the interest rates on FHA and VA mortgages?

Is it fair to the already harassed taxpayer to close our eyes to positive and sound economic facts—to a course not requiring additional legislation—in favor of another billion dollar illusion which at best will provide only a few months' respite?

ADDITIONAL AUTHORIZATION FOR COMMUNITY FACILITIES AND PUBLIC HOUSING

Last year the Congress, following lengthy and exhaustive discussion of the defense housing problem, enacted Public Law 139 and provided that all authority under the law was to expire on June 30, 1953. To meet the needs of assistance for community facilities and public housing the Congress authorized for this 2-year period $60,000,000 for community facilities and $50,000,000 for defense public housing. Shortly after enactment the Congress appropriated half of the amount authorized for public housing and less than half of the amount authorized for community facilities for the fiscal year 1952.

Recently, however, the Congress in considering the supplemental appropriations bill appropriated less than half of the additional funds requested for this purpose. We do not believe that anything has developed within the past year to justify increasing the authorization to the limits set by this bill.

With respect to authorizing an additional $40,000,000 for community facilities, the recent experience of Paducah, Ky., provides a most effective rebuttal to the request for this item.

Paducah was a relatively small community until the Atomic Energy Commission launched one of its huge undertakings in the area. It was ostensibly to help communities such as Paducah that the Congress authorized $60,000,000 in 1951 for community facilities. Paducah needed $500,000 for expansion of water and sewerage, and it is emphasized that it was for a need such as this that Congress authorized the expenditure of Federal money. However, the Housing and Home Finance Agency underestimated both the desire and the ability of local communities to solve their own problems without the illusory benefit of Federal intervention.

In April Paducah advised HHFA that it had obtained, on its own, financing of a bond issue to cover the cost of its expanded community facilities. We suggest that it might be best if the committee and the Congress brushed aside the pleas of Government agencies for more and more money, and placed more confidence in the desire of local communities to solve their problems in the traditionally American way of local determination.

USE OF PERMANENT LANHAM ACT HOUSING AS DEFENSE PUBLIC HOUSING

Section 5 of the bill apparently would authorize the Housing Agency to utilize permanent (masonry-constructed, etc.) Lanham housing as temporary housing for the purposes of title III of the Defense Housing Act.

This request comes somewhat as a surprise because it presupposes that the Housing Agency had been previously authorized by Public Law 139 to use temporary Lanham housing for temporary use contemplated by section 302 (b) of the act. We fail to find any such authority in the act unless it is to be inferred from the very general language in section 306 of the act relating to interagency transfers of property.

Regardless of the merits of converting Lanham units to defense public-housing use, we do recommend that the committee amend section 6 of the bill so that the time during which the Administrator is excused from disposing of Lanham housing expires with the Defense Housing Act June 30, 1953, or not later than 6 months thereafter. The Congress has reviewed this question of disposing of Lanham housing almost every year since World War II ended. We suggest that at this late date the Congress ought not give the Administrator the wide general authority contemplated by section 6.

SUMMARY—SURVEY OF AVAILABILITY OF RESIDENTIAL MORTGAGE FUNDS, APRIL 1952, NAREB MORTGAGE STUDY COMMITTEE

The survey of availability of residential mortgage funds indicated that throughout the United States conventional and FHA-title II funds are moderately to freely available and GI loans are generally not available. In critical areas, FHA-title IX loans range from moderately available to tight. Savings and loan associations were rated as the principal source of mortgage funds, with insurance companies second, and commercial banks third. The prevailing interest rate on conventional loans was reported as 5 percent. Comments in the survey most frequently mentioned interest rate as the reason for the nonavailability of GI loans. A brief outline of the survey results follows:

Three hundred and seventy-nine questionnaires tabulated covering 47 States and the District of Columbia:

15 percent answered for the city only.
85 percent answered for the city and the surrounding area.

FHA-TITLE IX MORTGAGE FUNDS (CRITICAL AREAS)

49 percent reported single-family moderately or freely available.
38 percent reported multifamily moderately or freely available.
51 percent reported single-family tight or not available.
62 percent reported multifamily tight or not available.

FHA-TITLE II MORTGAGE FUNDS

71 percent reported single-family moderately or freely available.
53 percent reported multifamily moderately or freely available.
29 percent reported single-family tight or not available.
47 percent reported multifamily tight or not available.

The New England region reported the highest percentage (69 percent) freely available for single-family.

Middle Atlantic and west north central regions reported tightest situation in single-family (35 and 33 percent).

CONVENTIONAL LOANS

85 percent reported single-family moderately or freely available.
76 percent reported multifamily moderately or freely available.
15 percent reported single-family tight or not available.
24 percent reported multifamily tight or not available.

The New England and east south central regions reported highest percentages (67 and 62 percent) freely available for single-family.

GI-VA GUARANTEED LOANS

84 percent reported tight or not available (49 percent of these reported "not available").
16 percent reported moderately or freely available.

The South Atlantic, east south central, west south central, and Pacific regions had the greatest number of not available reports (72 percent, 69 percent, 83 percent, and 63 percent).

PRINCIPAL SOURCE OF MORTGAGE FUNDS

80 percent reported savings and loans.
54 percent reported insurance companies.
43 percent reported commercial banks.
28 percent reported savings banks.

PREVAILING INTEREST RATE ON CONVENTIONAL LOANS

5 percent was median interest rate throughout the United States.

Mountain and Pacific regions had median interest rate of 5½ percent. All other regions had median of 5 percent.

NAREB MORTGAGE STUDY COMMITTEE—SURVEY OF AVAILABILITY OF RESIDENTIAL MORTGAGE FUNDS, APRIL 1952

City _____ State _____
Name _____ Board _____
Area covered: City ☐ City and surrounding area ☐
Date _____

Type of loan

Availability	FHA-Title IX (critical areas)	FHA-Title II	Conventional	GI (VA-guaranteed)
Freely available:				
Single-family				
Multifamily				
Moderately available:				
Single-family				
Multifamily				
Tight:				
Single-family				
Multifamily				
Not available:				
Single-family				
Multifamily				

Prevailing interest rate on conventional loans _____
If mortgage funds are available in your area, please check principal source:
Insurance companies ☐ Savings and loans ☐
Commercial banks ☐ Savings banks ☐
Comment _____

LIST OF 81 COMMUNITIES REPORTING IN MAY MONTHLY MORTAGE STUDY

NONCRITICAL AREAS

Alabama: Birmingham
Arizona: Phoenix
Arkansas: Little Rock
California:
- Bakersfield
- Fresno
- Sacramento

Colorado: Durango
Delaware: Wilmington
Florida:
- Jacksonville
- Miami

Georgia:
- Atlanta
- Rome

Idaho: Coeur d'Alene
Indiana:
- Kokomo
- South Bend

Iowa:
- Cedar Rapids
- Maquoketa

Kansas:
- Dodge City
- Fort Scott
- Hutchinson

Louisiana: Franklin
Maine: Lewiston
Maryland: Salisbury
Massachusetts:
- Boston
- Stoneham

Michigan:
- Ann Arbor
- Detroit

Minnesota:
- Duluth
- Mankato

Mississippi: Jackson
Missouri: Springfield
Nebraska: Omaha
New Jersey: Newark
New Mexico: Roswell
New York:
- Buffalo
- New York City
- Syracuse

North Carolina: Raleigh
Ohio:
- Canton
- Massillon

Oklahoma: Shawnee
Oregon: Medford
Pennsylvania: Harrisburg
South Carolina: Columbia
Tennessee: Knoxville
Texas:
- Dallas
- Fort Worth

Virginia:
- Arlington
- Roanoke

Washington: Seattle
West Virginia: Charleston
Wisconsin: Milwaukee
Wyoming: Cheyenne

CRITICAL DEFENSE AREAS

Alabama: Anniston
Arizona: Tucson
California:
  Hayward
  Camp Stoneman
Connecticut: New London
Florida:
  Palatka
  Pensacola
Georgia:
  Fort Benning
  Valdosta
Idaho: Idaho Falls
Illinois: Joliet-Braidwood
Indiana: Indianapolis
Kansas:
  Parsons
  Salina
Kentucky: Fort Knox
Maryland: Frederick
Montana: Great Falls
New Jersey: Asbury Park
New Mexico: Las Cruces
New York: Utica-Rome
North Carolina: Camp Lejeune
Ohio: Wright-Patterson AFB
Pennsylvania: Bucks County
South Carolina: Charleston
Texas:
  Brazoria
  Kingsville
Washington: Auburn
Wisconsin: Baraboo

MONTHLY STUDY OF THE RESIDENTIAL MORTGAGE MONEY MARKET

(This report is the first in a series of studies being undertaken by the Department of Research and Surveys at the request of the Mortgage Study Committee)

The special mortgage money market survey, to be conducted as a series of 5 monthly studies, was initiated the last week in May. It is concerned with a sample of communities representative of critical defense areas and of non-critical areas. Twenty-five of the former and 50 of the latter, appropriately located, were thought to be adequate for the purpose of the survey. In an effort to assure a sample of relatively consistent size and composition each month, requests for participation in the studies were sent to a total of 108 realtors, 72 of them members of NAREB's Mortgage Study Committee. Of this group 42 were asked to report for critical defense areas and 66 for noncritical.

Prior to the preparation of the first report, completed questionnaires had been received from 81 communities (28 critical defense areas located in 23 states and 53 noncritical areas located in 37 States). The following summary is based on the opinions expressed in these reports.

The degree to which mortgage money is available for residential structures varies widely depending upon the type of loan sought. Conventional loans head the list. VA-guaranteed loans are at the bottom. From the following table the spread can easily be seen:

Degree of availability of residential mortgage money (percent)

	Conventional	FHA title II	Veterans' Administration	FHA title IX (critical areas only)
Single-family:				
Readily available	69.6	36.7	11.4	21.7
Moderately available	20.3	41.8	2.5	26.1
Tight	10.1	19.0	35.4	39.2
Not available		2.5	50.7	13.0
Multifamily:				
Readily available	41.8	20.9	10.4	4.8
Moderately available	31.3	34.3	1.5	28.6
Tight	23.9	32.8	23.9	52.3
Not available	3.0	12.0	64.2	14.3

An inquiry regarding sources of mortgage money disclosed broad diversity, but with savings and loan associations and insurance companies standing out as the prime sources of supply. Sixty-four of the communities reporting indicated that savings and loan associations are the first or second source of mortgage money. Insurance companies ranked as the primary or secondary source in 48 of the areas polled.

Here is a breakdown giving the order of importance by source as indicated in the returns:

Source of mortgage money by order of importance [1]

	1	2	3	4
Insurance companies	29	19	14	8
Commercial banks	2	14	27	23
Savings and loan associations	36	28	6	3
Savings banks	7	8	18	16

[1] Those not replying and those to whom the question was not applicable are omitted from these totals.

Although 5 percent was most frequently reported as the prevailing interest rate, it by no means dominated the market (it was also the median interest rate). In addition to the anticipated variation related to source of mortgage funds and to ratio of loan to sales price, considerable difference was reported from community to community. Even within a given locality a number of respondents felt that a single rate did not convey a valid impression. They reported either a dual rate or a range of rates. A comparison of rates for the two most frequently reported sources is as follows:

Comparison of interest rates

	4½ percent	5 percent	6 percent	Other, including range	Rate not stated
Insurance companies:					
Critical	2	6	0	16	4
Noncritical	11	19	0	19	4
Building and loan associations:					
Critical	0	4	7	15	2
Noncritical	0	20	11	17	5

While 5 percent was the most frequently reported rate for lender insurance companies, it will be noted that the second most frequently reported rate was 4½ percent. In contrast, there were no reports of 4½ percent for savings and loan associations. The second most prevalent rate for these lender institutions was 6 percent.

Only one community reported a prevailing interest rate over 6 percent. A dual rate, 6 and 7 percent, was recorded for this area.

For the two most frequently reported sources, insurance companies and savings and loan associations, a specific ratio of loan to sales price was listed by about three out of five respondents. Most of the other realtors felt that loan practice varied to such a degree that a range more accurately described conditions in their community.

Ratio of loan to sales price

	Under 50	50–59	60–69	70–79	80 and over	Range reported [1]	Ratio not stated
Insurance companies:							
Critical	----	4	9	1	1	7	6
Noncritical	----	8	25	3	1	11	5
Savings and loan associations:							
Critical	1	2	10	5	1	5	4
Noncritical	----	3	20	9	----	17	4

[1] 5 range reports were from 70 upward, 2 were 50-55, all others included 60 or 65 in the range.

Two questions were asked regarding governmental appraisal practice as it has functioned in these communities. They concerned the practice of the Veterans' Administration and the Federal Housing Administration.

The ratio of VA appraisal to market price was reported at various figures from 90 through 100 percent by most participants (85.7 percent). The remaining group answering the inquiry reported the ratio in their communities to be under 90 percent. A significant number did not answer the question. Six volunteered that no VA money was available and this may be the explanation of a number of the other omissions.

The largest group of reports regarding FHA appraisal fell between 80 and 89 percent (30 of those answering stipulated such a ratio). When these areas are combined with the communities in which the ratio was from 90 through 100 percent, they account for more than 3 out of 4 (78 percent) of the communities.

Considerable interest has been evidenced recently in the reappearance of second mortgages. That they are appearing again in connection with conventional loans in many cities was confirmed by the findings of the survey. The following table sets forth the reports received in their regard:

Reappearance of second mortgages in connection with conventional loans

	All areas	Critical	Noncritical
Total	81	28	53
Yes	33	10	23
No	45	18	27
No answer	3		3

Since receipt of the May questionnaires, real-estate-credit restraint has been eased to a limited extent. The following report, therefore, is concerned with regulation X, not as it is today, but as it affected mortgage credit prior to June 11.

Some 3 out of 5 communities are said to be feeling the effects of regulation X to the point where it is materially retarding new construction.

Has regulation X materially retarded new construction?

	All areas	Critical	Noncritical
Total	81	28	53
Yes	47	19	28
No	33	8	25
No answer	1	1	

Regulation X is seriously affecting the sale of houses over $12,000.

Has regulation X materially retarded sale of houses over $12,000?

	All areas	Critical	Noncritical
Total	81	28	53
Yes	63	22	41
No	16	5	11
No answer	2	1	1

The impact of regulation X on the sale of residences under $12,000 is not quite as forceful, but here too nearly half of the reports indicate that it is materially retarding purchases.

Has regulation X materially retarded sale of houses under $12,000?

	All areas	Critical	Noncritical
Total	81	28	53
Yes	39	14	25
No	41	13	28
No answer	1	1	

From the preceding tables regarding new construction and sale of houses under $12,000, it is evident that regulation X is an obstacle in more critical than noncritical areas.

Study of residential mortgage money market

Mortgage money—degree of availability	Type of loan			
	FHA-insured title IX (critical areas)	FHA-insured title II	Conventional	VA-guaranteed
Readily available:				
Single-family				
Multifamily				
Moderately available:				
Single-family				
Multifamily				
Tight:				
Single-family				
Multifamily				
Not available:				
Single-family				
Multifamily				

Sources of mortgage money	No. 1, 2, 3, 4 to denote order of importance as source	Prevailing interest rate	Ratio of loan to sales price
		Percent	*Percent*
Insurance companies			
Commercial banks			
Savings and loan associations			
Savings banks			

Ratio of VA appraisal to market _____ percent.
Ratio of FHA appraisal to sales price _____ percent.
Are second mortgages reappearing in connection with conventional loans? _____ Yes ☐ No ☐
Has regulation X materially retarded:
(*a*) New construction _____ Yes ☐ No ☐
(*b*) Sale of houses under $12,000 _____ Yes ☐ No ☐
(*c*) Sale of houses over $12,000 _____ Yes ☐ No ☐

_____
(Signature)

_____
(City and State)

STATEMENT OF AMERICAN LIFE CONVENTION OF CHICAGO, ILL., AND THE LIFE INSURANCE ASSOCIATION OF AMERICA OF NEW YORK CITY

This statement relates to section 3 of S. 3066, which would increase by $900 million the amount of FNMA commitments which could be outstanding up to June 1953 with respect to defense and disaster mortgages, and is filed on behalf of the American Life Convention, of Chicago, and the Life Insurance Association of America, of New York. These two life-insurance company associations have a combined membership of 238 life companies domiciled in the United States and Canada. These member companies hold over 98 percent of the assets of United States life companies.

As trustees of the savings of 86 million policyholders, the life-insurance companies have the obligation to invest these savings in a manner consistent with the safety of the principal. Within this framework, they must seek to earn the highest possible rates of return as determined by competitive market forces. In this way the net cost of life insurance to policyholders is held to a minimum.

Real estate mortgages on housing have proved to be attractive investments for life-insurance companies. They are one of the most important sources of permanent-mortgage financing on housing and have invested heavily in both FHA and VA loans. At the end of 1951 they held $5.3 billion of FHA-insured mortgages, amounting to 36 percent of the total FHA mortgages outstanding at that time. Also at the end of 1951 they held $3.2 billion of VA-guaranteed mortgages, constituting about 26 percent of the aggregate VA mortgages then outstanding.

The life-insurance companies fully recognize the pressing need and national importance of satisfactory housing facilities in defense and disaster areas, and they realize that there is some question as to whether financing of this type of housing in certain remote areas can be accomplished without advance commitments by the FNMA. However, in the majority of areas where defense and disaster housing has been programed, the life-insurance companies firmly believe that private-mortgage financing would be available if the terms for such financing were competitive with the terms offered in other parts of the capital markets.

The record of the hearings on May 5 and 6 before the Committee on Banking and Currency of the United States Senate on S. 3066 and the committee's report on the bill do not make it clear that the life insurance companies and other sources of permanent mortgage financing are interested in making FHA and VA loans on defense housing. In this connection the representatives of the four life-insurance companies who participated in the round-table conference hearings before the Committee on Banking and Currency on February 6, 7, and 8, 1952, took the position that private funds were not flowing into defense housing because the rate of interest and other financing terms with respect to defense mortgage loans were not competitive when compared with terms being offered by other borrowers. They thought that with certain changes in the terms offered for defense mortgages an adequate supply of private funds would meet the needs in the majority of defense areas.

To be specific, the life-company representatives expressed the opinion that private mortgage money would be available in most defense and disaster areas, as well as generally throughout the country, if certain steps were taken. First, and most important, they felt that the interest rate on FHA and VA loans should be increased in line with general market rates. Under current market conditions the interest rates of 4 percent of VA loans and 4¼ percent on FHA loans are one-quarter of 1 percent below the general market and need to be raised by this amount to make them competitive. Secondly, they urged that the interest rate on, and the terms of, FHA debentures to be received by investors upon foreclosure should also be raised in line with current market interest rates. In addition, the FHA should limit the vulnerability of investors to heavy foreclosure expenses by including the foreclosure costs in the amount of the debentures issued. Thirdly, they suggested that a waste clause similar to the waste limit of $100 on the old section 603 loans should be placed in effect on new defense and disaster housing loans. Finally, they expressed the belief that the amortization of defense mortgage loans should be faster than the 30-year period currently in effect.

It is our belief that, if steps such as those outlined above were taken, a large volume of private financing would promptly flow into defense and disaster housing without the aid of FNMA. This financing would come from life, insurance companies and many other sources such as mutual savings banks, savings and loan associations, and pension funds. It is difficult, of course, to estimate how much additional private financing would move into the defense area housing as a result of the adoption of more realistic terms, but it seems reasonable to expect that the bulk of this financing could be accomplished without resorting to FNMA commitments.

At the hearings on S. 3066 before the Senate Committee on Banking and Currency, Mr. Raymond L. Foley, Administrator of the Housing and Home Finance Agency, testified that a total of 163,000 units of defense and disaster housing will require $1,304 million of mortgage financing by the end of 1952. He also estimated that only 25 percent of this amount will be financed with private funds. On the basis of these estimates, Mr. Foley concluded that the FNMA authorization for defense and disaster housing should be increased by an amount just under $1 billion. The $900 million authorization contained in S. 3066 approximates Mr. Foley's estimate.

There is already set aside $362 million of FNMA funds from previous authorizations which is available to purchase defense, military, and disaster housing. If this amount were made available, as we feel it should be, for advance commitments with respect to the defense and disaster housing which must be financed by the end of 1952, the $900 million authorized in the bill could be reduced to $538 million. We believe that more than half of this latter figure could be provided by private capital through the adoption of the financing terms presented by the life-insurance company representatives at the round-table discussion held before the Committee on Banking and Currency. The additional FNMA authorization for defense and disaster housing, in our opinion, should not exceed $200 million and we feel that even this figure is on the high side because realistic financ-

ing terms would promptly attract private funds to satisfy the demand in the case of most of the defense and disaster housing projects.

Realistic financing terms will not only attract private funds to meet the present need for defense-housing mortgages, but they will strengthen the FNMA program which Congress intended should operate on a revolving-fund basis. In the case of the loans that were purchased by FNMA in the areas where private financing might not be available, the interest rate and other terms on such financing should be made sufficiently attractive to encourage private institutions at some later date, when the presently more isolated areas may have proved their stability, to purchase these mortgages from FNMA. The purchase in the future of mortgages from FNMA will assure the success of the revolving fund and will make it unnecessary for Congress to appropriate more and more money to FNMA.

During the past year there has occurred a tightening of interest rates which has thus far been ignored by the housing authorities. With the abandonment in March 1951 of the Federal Reserve policy of rigidly supporting Government securities prices, interest yields on Government securities, corporate bonds, conventional mortgages, and on other investments, have risen. In the face of this fundamental change in the pattern of interest rates, the FHA and VA have adhered rigidly to pegged rates. Herein lies the basic reason why private financing has not been readily available for defense and disaster housing. The fallacy of pegged interest rates has been recognized by the Federal Reserve and the Treasury and the yields on Government securities are now permitted to move in response to market forces. Moreover, the need to pay a higher rate to attract capital funds has been recognized during the past year in Government financing, particularly in connection with recent changes made in the savings-bond program.

It is the position of the life-insurance business that section 3 of S. 3066 ignores the fact that private financing can take care of the bulk of the need for mortgage money with respect to defense and disaster housing if the financing terms are placed on a competitive basis with the credit terms in other areas of the capital markets. The credit terms proposed in this statement, if adopted, would in our opinion, make it possible to reduce the FNMA authorization to a figure not to exceed $200 million. Such a modification would substantially reduce the Federal budgetary deficit, which estimates indicate will exceed $14 billion for the fiscal year 1953. This large deficit in a period of inflationary pressure makes it exceedingly important that every step be taken to avoid an unnecessary increase in the FNMA authorization. And we submit that an increase of the magnitude of $900 million is unnecessary and that private sources of capital can meet most of the need. The unwillingness of the administrators of the FHA and VA housing programs to recognize the necessity for offering financing terms on a competitive basis is the source of the difficulty. This problem would be quickly resolved without such a substantial increase in FNMA authorization if Congress would direct the administrators of the FHA and VA programs to adopt the modifications in financing terms recommended in this statement.

STATEMENT OF MISS JULIA D. BENNETT, DIRECTOR, WASHINGTON OFFICE, AMERICAN LIBRARY ASSOCIATION

I am Julia D. Bennett, director of the Washington office of the American Library Association. This is a professional organization of more than 20,000 school, college, university, special and public librarians in the United States.

We are appreciative of this opportunity to present a statement in connection with the hearings on the Housing Act of 1952.

The objectives of this bill are to insure adequate housing and community facilities and services in the areas designated critical by the proper Federal authorities by increasing the authorizations for these items as stated in the Defense Housing and Community Facilities and Services Act of 1951. Public libraries in these areas are being called upon for additional services to an ever-increasing extent by defense industry workers and their families as well as the military personnel and their families who have moved into these areas within the last few years. Although these public libraries have been attempting to make adjustments within the limits of their budgets to care for these inmigrants, lack of funds make it impossible in many of these areas to provide the library facilities urgently needed. Local libraries in many of the designated areas are receiving the maximum tax appropriation under the law and demands for services are being

reported which their inadequate resources cannot meet. People want more and more technical books—books for increasing competency on defense jobs, broadening technical knowledge and learning new skills for new jobs. Books for understanding the current problems of the world in which we live are needed in increasing numbers. The homemakers and children of the area need books and materials available only through libraries.

Libraries were specifically mentioned in the "Community facilities" section of Public Law 139, giving evidence of the fact that libraries are a very necessary part of every community. A community operates under severe handicaps to its educational and cultural progress if it does not have adequate technical, informational, recreational, and inspirational materials of a library.

We realize that being specifically mentioned under "Community facilities" in Public Law 139 gives authority for appropriations to libraries in the designated critical areas. However, libraries in desperate need for finding that their applications are not being accepted because the money was earmarked in such a way under the first appropriation to preclude any chances of libraries receiving funds.

We request the committee to again include the word "libraries" in the section "Defense community facilities" of the Housing Act of 1952 when this bill is reported. We ask this so there will be no question but that it is the intent of the Congress to include libraries among the facilities provided for in the act.

STATEMENT OF THE AMERICAN BANKERS ASSOCIATION

The American Bankers Association wishes to present its views on one section of S. 3066; namely, section 3 which amends section 301 of the National Housing Act, relating to FNMA commitments to purchase mortgages in defense or disaster areas.

It is our understanding that when the present FNMA was created it was intended that it should function solely as a stand-by secondary market. However, its activities have been so expanded that it has frequently become an instrument of inflationary speculation.

FNMA should not be used to support defense housing that can be financed by other means. Its only justification is as a means of supplying mortgage accommodation in areas where no mortgage funds are available, or in support of large fluctuations in the economic cycle when legitimate mortgages cannot otherwise be placed. Neither of these conditions appears to exist at the present time to the extent that an increase of $900 million in the advance commitment authority of FNMA would be justified.

The proposed amount is large enough to take care of the placement with FNMA of a large portion of all mortgages which may be made on programed housing in defense areas or on housing in disaster areas. If the defense and disaster mortgages should average $8,000 apiece, the $900 million would provide a market for more than 100,000 housing units. This is a large proportion of the reliably estimated maximum number of housing units which may be started in defense areas in the year ending June 30, 1953. It makes practically no allowance for the placement of defense mortgages in the private secondary market, nor to such mortgages that will be made by primary lenders and held as an investment in their own portfolios.

The situation in the private secondary-mortgage market is rapidly changing. FNMA reports continuous sales of mortgages held and thereby additional funds are made available for new purchases. There has been a substantial improvement recently in these sales. Prior to June they had been averaging about $3 million a month. In the first 2 weeks in June sales were over $4 million, which on a monthly basis would more than double the previous rate of sales. The growth of savings continues at an accelerated rate, and a more favorable economic climate generally is developed for placement of mortgages in the private secondary markets.

It is believed that the United States Treasury should not be called upon to meet the added burden of supplying FNMA with the funds to meet the increased commitments authorized, and that in anticipating such a call upon Treasury funds the debt-management problems of the Secretary of the Treasury, already made difficult by deficit financing, would be further complicated.

In view of these circumstances, it is suggested that consideration be given to the elimination of section 3 from the bill.

TESTIMONY PRESENTED BY FRANK P. FLYNN, JR., EXECUTIVE VICE PRESIDENT, NATIONAL HOMES ACCEPTANCE CORP., LAFAYETTE, IND., REPRESENTING PREFABRICATED HOME MANUFACTURERS' INSTITUTE

Mr. Chairman, Members of the Committee on Banking and Currency of the United States House of Representatives, the imperative necessity for a secondary-mortgage market for defense-housing loans is so apparent that it should be unnecessary to even discuss the matter. Many plans have been advanced by various interests, but no feasible alternative to the operation of Federal National Mortgage Association has been provided.

At present, financing of housing in most critical defense areas is at a standstill. The prior commitment authorization of Federal National Mortgage Association is exhausted and private institutional investors are unwilling to finance the defense-housing program for various reasons.

Those opposed to Federal National Mortgage Association produce various arguments against it, none of which are sound. First, they allege that there is no need of it; that if the interest rate on Federal Housing Administration title 9 loans is raised to a satisfactory level that private investors will provide the secondary market. This is not correct. The reason that institutional investors refuse to invest funds in defense-housing projects is because they feel that the installations requiring housing are temporary, that the locations are isolated, that there is not sufficient basis for permanent economic stability, that the living units to be provided in many instances are too minimum in size and conveniences to meet their requirements and that the purchasers or tenants are transitory workers and may abandon their properties and allow their mortgages to become delinquent. Private investors do not rely without qualification on the guaranty of the Federal Housing Administration and the Veterans' Administration. They all have requirements of their own, do their own underwriting, set up their standards for the structure, location and borrower, and, consequently, regardless of the interest rate defense-housing loans in most defense areas will go begging. In support of this contention, let me quote some statistics in 1940 when title VI was enacted. Many of us were in the mortgage business and found that our insurance company and savings bank principles were unwilling to buy these loans from us. There was no question whatever about interest rates. It was purely a case of their feeling that the loans were unsound even with the Government guaranty.

Here are some figures on Federal National Mortgage Association activity in 1940, 1941, and 1942. These statistics refer only to Federal National Mortgage Association activity and do not include the program of the RFC Mortgage Company which financed a large portion of the housing program at that time. In 1940 Federal National Mortgage Association purchased $48,000,000, in 1941 they purchased $42,000,000, in 1942, $23,000,000, and sold no appreciable amount. In 1943, however, while buying only a few they sold to private investors $126,000,000.

Their figures show that while private investors were unwilling to make these loans at par they later bought them from Federal National Mortgage Association and paid a premium. This is, perhaps, as it should be. As a policyholder of insurance companies and a depositor in banks, I agree that their funds should not be invested until the soundness of the investment is demonstrated and that it is, perhaps, wise to have these loans purchased by Federal National Mortgage Association and allowed to season before being purchased by private investors. But without Federal National Mortgage Association just where would our war effort have been, and today just where will it be?

To illustrate further, here are some figures on Federal National Mortgage Association activity in 1950, 1951, and 1952. In 1950 Federal National Mortgage Association purchased $1,044,000 while selling $469,000,000; in 1951 they purchased $67,000,000 while selling $111,000,000, and for the first 5 months of the current year they purchased $279,000,000 while selling $18,000,000; again illustrating the need of this agency if we are to have an adequate supply of mortgage money.

Next, we hear the argument that Federal National Mortgage Association is inflationary. I fail to see why providing funds to, in turn, provide sufficient housing is inflationary. The more housing we have the less unsatisfied demand for housing that exists the lesser will be the premium in home sales prices, and like all other commodities, when the demand for housing is less than the supply prices will cease their upward spiral and even decline.

Then the objection is made that Federal National Mortgage Association is public housing or is Government in housing. It is the direct opposite. It is

our bulwark against public housing because Federal National Mortgage Association doesn't seek to loan. They don't compete with private investors. They buy only loans that no one else will. They act as a clearinghouse, as a rediscount bank, if you will, as a warehouse buying loans when money is tight and selling to private investors when funds are plentiful. Federal National Mortgage Association makes it possible for mortgage bankers, local banks, or building and loan associations to finance defense housing and dispose of the mortgages if their portfolios become top heavy or if their regular principals are unable or unwilling to purchase the mortgages for them. Thus, rather than Government competing with private lenders they actually are cooperating to allow the mortgage company a means of remaining in business when all other of his principals are out of the market. Federal National Mortgage Association does not compete with private lenders. No one sells loans to Federal National Mortgage Association if they can be disposed of elsewhere. The only loans that find their way into Federal National Mortgage Association are loans which no private investor will or can make.

The argument is advanced by opponents of Federal National Mortgage Association that at this time there are sufficient funds in this country in the hands of private investors to finance the necessary production of housing in the country without Federal National Mortgage Association. This is not true. The Mortgage Bankers Association of American have for some time been attempting to prevail upon the administrators of the various pension trusts to make available their funds for mortgage investment because those funds are urgently needed if adequate financing for the housing industry is to be provided. Over a period of years availability of mortgage funds varies, at times a shortage exists and, again, there may be surplus funds. Federal National Mortgage Association is an ideal balance wheel providing funds when they are scarce and disposing of their mortgages to private investors when funds are ample and these investors are searching for mortgages to utilize their funds.

Next there is the argument that Federal National Mortgage Association is a dumping ground for mortgages and that it encourages bad lending practice and unsound loans. They purchase only Federal Housing Administration or Veterans' Administration loans. Do these opponents of Federal National Mortgage Association then allege that their agencies do not properly analyze the mortgages they insure?

The record of Federal National Mortgage Association has been excellent. First, it is entirely self-supporting. It had an accumulated net income as of May 31, 1952, of $91,769,554 and after purchasing 455,441 mortgages the delinquency ratio is only 2.4 percent. The record does not indicate sloppy lending.

If Federal National Mortgage Association constitutes too much Government in business then so, also, does Federal Housing Administration and the Veterans' Administration, the Home Loan Bank, and the recently liquidated Home Owners' Loan Corporation. Hundreds of members of the lending fraternity will give approval to the activities of these latter agencies and hundreds of thousands of Americans who have been given the privilege of home ownership or have been protected against the loss of this privilege will add their voices to their support. Federal National Mortgage Association is no more Government in business than these agencies.

It is true that it would be preferable for private capital to organize and maintain an institution which would provide an adequate and satisfactory secondary market for mortgages but, although the National Housing Act, made law by the Congress of the United States in 1934, provided for such an organization, 18 years have elapsed and a number of crises in the mortgage market have occurred and still no such organization exists. Time after time, Federal National Mortgage Association whose opponents today wish to scuttle has saved the day for the Home Building Industry and on several occassions the Defense Housing effort.

One fact should be kept in mind, if no Federal National Mortgage Association exists in these United States, if the sale source of mortgage funds exists in the hands of the private institutional investors in the country, a monopoly exists and those who advocate a higher interest rate could be in a position to force an increase by adopting a policy of no increase in interest rate no funds for mortgages. Because of the integrity and patriotism of the mortgage-lending industry in America there is no need to be concerned about this, but, nevertheless, is it not folly to place the country in such a position by abolishing the one means we have of maintaining an adequate flow of mortgage funds?

America is preparing herself for what may well be a war of survival. Today, Americans are fighting and dying in Korea. Thousands of us fought in World

War I or II because we felt it was a duty and a privilege to serve our country and it would be a dereliction of duty not to protest against the effort being made to abolish Federal National Mortgage Association by well-meaning persons who don't realize that without Federal National Mortgage Association the success of our defense housing effort could be placed in jeopardy.

STATEMENT OF THE CHAMBER OF COMMERCE OF THE UNITED STATES ON THE PROPOSED HOUSING ACT OF 1952 (S. 3066)

The main objective of the bill under consideration is to assure that houses critically needed for defense workers and military personnel and for dispossessed families in flooded areas will be provided.

There can be no disagreement with this purpose. All of us recognize that the defense program can be seriously impeded by lack of adequate housing in defense areas and on military establishments; and none of us wants to take the risk that might result from such a lack. All of us are willing to help rehouse families left shelterless by the disastrous floods of this year and last.

Recognition of this objective, however, leaves open the question of the best means by which it is to be accomplished. So far as the objective can be accomplished only by the direct or indirect use of Federal funds, we accept that necessity. But the inflationary import of adding to a budget deficit already estimated at approximately 14 billions of dollars is so serious that even in the face of great urgency, every possible effort should be made to accomplish the objective by other means.

We believe that, in large part, other means exist and that the bill, therefore, too readily assumes that all the needed defense, military and disaster housing will have to be financed by the purchasing of mortgages by the Federal National Mortgage Association, or, to the extent that even this will not serve the purpose. by direct construction by the Federal Government.

The question needs to be raised: Why should Federal National Mortgage Association financing be required at all? A number of reasons may be advanced. It is said that lending institutions are unfamiliar with the new title IX financing; that much of the defense housing need is temporary and hence will lead to a bad foreclosure experience; that many of the defense areas are remotely located and consequently present unusual difficulties in making and servicing loans.

Of these arguments only the last has merit and offers any real deterrent to private financing. There undoubtedly are a number of instances where, because of the remoteness of the locality and its size in relation to the defense impact, private financing facilities may have difficulty in functioning effectively.

Up to the present time, the Housing and Home Finance Agency has determined that approximately 80,000 new dwellings are so critically needed to house defense workers and military personnel as to warrant a relaxation of existing credit controls. But of the 80,000 units so far programed, well under 50,000 are in communities outside recognized metropolitan areas. In many of these places, the use of FNMA facilities no doubt can be justified because of unusual difficulties in obtaining financing through the ordinary private channels. Taking a commonly accepted average mortgage amount of $8,000 a dwelling unit, these cases would not require financing of more than $400 millions. At the present time, through advance commitment or "set-aside" funds, FNMA already has more than $600 millions available for this purpose, or approximately enough for 75,000 units. Even if the number of units programed in remote places was doubled before the time the next Congress meets, the amount required for FNMA for this necessitous purpose would be $800 million, which is $200 million more than is now available. This contrasts with the $900 million that the bill calls for.

The other reasons for using FNMA are not easily defended. The argument that there will be a bad foreclosure experience through the creation of ghost towns is not well founded in view of the care apparently taken in programing only for needed permanent housing, the "lack of familiarity" argument can hardly be serious after a year's time if the FHA has shown half its usual zeal in explaining its programs. In any case it could apply only to the new title IX. Much of the defense housing could be financed under other, more familiar FHA provisions or under the well-known provisions of the GI bill of rights, while the military housing will mainly be built under FHA's title VIII, with which lenders have now had several years' experience. These reasons advanced for the need of FNMA funds serve merely to cloak the lack of salability of the loans in the current money market.

The purpose of the huge FNMA increase, except for assuring financing in remote areas, really seems to be to support a rigidly fixed interest rate on insured and guaranteed loans at such times as it falls below the market rate of interest. The persistence of the Government in this position has ceased to make financial sense.

For over a year, the Federal authorities have held out on a rate increase on the contention that "in only a few months" the rigid rates would be restored to favor. If they really believe this to be the case, then the argument for this huge FNMA authorization evaporates, for certainly a much smaller amount than the $900 million requested would carry the situation until the market improves. If they really believe this, there is certainly no excuse for releasing, as this bill would do, $360 million for the purchase of mortgages that have nothing to do either with defense or disaster, for these nondefense mortgages would be readily marketable except for one thing—the interest rate.

The release of these funds for the ordinary mortgage market can only mean one thing: That the Government actually doesn't believe that there will be a sufficient easing of the interest rate and that therefore, it must resort to this inflationary device to regain parity in the market for VA loans. This move is directly contrary to the anti-inflationary policies of the monetary authorities, because, in restoring parity, it increases the total supply of funds in the market. A flexible rate, on the other hand, would restore parity without an artificial and inflationary increase in the total supply.

Another evidence of lack of faith in the contention that the present rates should make these loans marketable at par is the authority given to FNMA to buy loans at discount. If FNMA is to buy these loans at the market, why shouldn't they be made to suit market conditions in the first place? In other words, if a marketable interest rate prevailed, there would be no discount and also no need for FNMA purchases.

It is long past time to face this issue squarely. There should be nothing more sacred about any particular interest rate, or price of money, than there is about any particular price of potatoes; and there would surely be no more futile gesture than an attempt to control the price of one-third of the potatoes and leave free the price of the rest of the potatoes. Yet that is exactly what is being done in the mortgage market. The much feared displeasure of the veterans if the interest rate is raised can hardly be greater than the resentment of thousands of veterans who, because they were not allowed to pay a slight increase in rate on their own system, have been forced to borrow in the conventional market at rates a full percent or more above the fixed rate of interest.

A flexible interest rate would accomplish almost all of what this bill is intended to accomplish. It would solve the problem in nondefense areas. It would take care of all but the most remote and uncertain of the critical defense areas. If, in these areas, the $360 million "set-aside" were made available for advance commitments, and if all repayments on sales of outstanding mortgages were also segregated for defense purposes, then another $200 million, or even $250 million, should be more than sufficient to meet all requirements for the purchase of mortgages unmarketable because of the lack of private financing facilities in some of the remote defense areas.

The private builders of this country have three times over-subscribed the numbers of defense housing units that have been programed, and have demonstrated their ability to meet all the conditions that the programing agency has laid down as to type, size, and price. Their sole need is financing. If a marketable interest rate is established for guaranteed and insured loans, and if, beyond this, the FNMA facility is maintained in a limited way, the builder's problem—and the defense housing problem along with it—will be solved.

STATEMENT OF ALBERT F. COYLE, PRESIDENT OF MORTGAGE FINANCE CORP.

Mr. Chairman and members of the committee, my name is Albert F. Coyle. I am president of Mortgage Finance Corp., with its home office in San Jose, Calif., and offices or correspondents in five of the major cities of central California. I have come 3,000 miles in order to present to your committee the viewpoint of the small mortgage originator with respect to S. 3066, and especially with reference to its effect on the veterans' home-loan program, which, because of its liberal terms, is the backbone of any sound plan to provide low-cost homes for the several million young married men who have served their country in the Armed Forces, and who constitute the very segment of the population most in need of such homes.

THE MORTGAGE ORIGINATOR, KEY MAN IN HOME FINANCING

The mortgage originators are the grass-roots people in the mortgage business. We trust that our views will be considered by your committee, since we have first-hand and intimate knowledge of the problems that actually exist in the housing field, which some of the eminent men who have appeared here evidently lacked. Thus, within a week after the head of a great life-insurance company assured the Senate Banking and Currency Committee that his institution would do all it could to further the national housing program, his agents out in California informed us mortgage originators that the company would accept no more home loans of any kind. Yet this same big investor has recently invaded the private banking field and announced a loan of more than $300,000,000 to a large business corporation on long-term debenture notes at an interest rate of less than 4 percent.

The great majority of mortgage originators are not big people. They would hardly call themselves mortgage bankers without some apology. Yet they are the ones who are in direct contact with the home owner and borrower in every city of any size in the country. And their importance to the major issues in the Senate bill now before you may be judged by the fact that they constitute over 90 percent of the sellers of mortgage loans recognized and listed by the Federal National Mortgage Association. Unfortunately, their point of view was not presented at all to the Senate committee when considering the present bill; and we appreciate profoundly your courtesy in hearing us now.

TRAGIC EFFECTS OF NO MARKET FOR VETERANS' LOANS

The Congress has repeatedly expressed its intent and desire that veterans be given the right to buy homes for their own occupancy on easy terms. This privilege is the very keystone of the GI bill of rights and the Servicemen's Readjustment Act of 1944, as amended. As recently as last year you reiterated your intent by enacting the Defense Housing Act of 1951, with even more liberal provisions for the veterans' home loan. Yet today in most parts of the country, and especially on the Pacific coast where housing needs are most acute because of the great increase in population, it is virtually impossible for a veteran to obtain a GI home loan. Believe me, gentlemen, we are not theorizing or depending on second-hand information when we say this. We know, from daily experience, that your acts of Congress providing for veterans' home loans are a dead letter in the Western States, and we understand that this is true throughout the country except in New England and a few large financial centers like New York.

Will you bear with me while I give you a few recent instances to prove the point. As you know, the bottom fell out of the veterans' home-loan market a year ago March, when the Federal Reserve pulled the plug on Government bonds. At that time our little company had about $2,000,000 of veterans' loans in process, and up to then we had a market for all of these 4 percent Government-guaranteed loans that we could deliver. We had spent many thousands of dollars in processing these loans, and had undertaken some heavy overhead expense in order to help carry out the veterans' home-loan program. When the Government bond market tumbled, the mortgage market fell after it, with the result that we were rather badly hurt. I personally have made three trips East during the past year seeking a market for at least some of these veterans' home loans, and have likewise visited every financial center on the coast from Los Angeles to Seattle. We have personally canvassed the major insurance companies and the big savings banks in New York and New England, which formerly bought veterans' loans in large quantities. To make it brief, the best offer we could find for these Government-guaranteed obligations anywhere was at a 5-percent discount. And since the Veterans' Administration permits us only a 1-percent processing fee, you can well imagine the sad sequel.

CHOICE OF NO LOAN OR 8 PERCENT INTEREST

Two months ago we decided to make a test of two extremely necessitous cases, where veterans had paid down their lifetime savings on homes bought under a purchase agreement providing for the forfeiture of their down payment if they failed to complete the deal. We had obtained from VA certificates of commitment on both of these loans, evidencing that the loans were well secured and that the purchasers had good credit standing. We spent 3 days in San Francisco trying to place these loans, visiting every bank, savings and loan society, and insurance

company which might take them. We offered to turn over the processed loans without one penny of compensation for ourselves. Finally we prevailed on a personal friend in one of the building and loan associations which had an account with FNMA to put it up to his executive committee to take these two veterans' loans as a personal favor, with the understanding that I would go to Los Angeles and obtain a letter from FNMA stating that the loan papers had been examined and found satisfactory. So I went to Los Angeles, and thanks to the helpfulness of the manager of FNMA there, obtained such a letter conditioned upon FNMA having free funds available at the time the loans were presented for purcahse. But 2 days later the news came out that FNMA's funds for over-the-counter purchases were exhausted, and the building and loan association would not take them. We then went to a friendly vice president of the Nation's largest bank, which has its head office in California, and made an earnest personal plea to help these two worthy veterans save their homes; and while we were given very courteous consideration, the answer again was "No." We thus spent a lot of time and some $250 of our own expense money to find out that it is now impossible to place a veterans' home loan in California, except at a ruinous discount.

A couple of weeks ago we had another VA loan case with a different ending. When the bottom fell out of the veterans' home loan market, we had a commitment from VA for a loan to a veteran who had obligated himself to buy a little home. We explained to the seller that we had done our utmost to find a market for the veterans' loan in vain, and he finally agreed to let the veteran remain in the house on condition that the latter spend several hundred dollars in redecorating it and pay him in addition $75 per month rental. A few weeks ago the owner had to move to another California city, and gave the veteran 10 days in which to raise the purchase price, or else get out so that the house could be sold to other parties. We got a private lender to make a first-mortgage loan on the property at 6 percent, but there still lacked about $2,000 of the purchase price. We reluctantly referred the veteran to a second-mortgage shark as the only possible source for these funds. The veteran got the second mortgage for 3 years at a cost of a $500 bonus and 8 percent interest on both principal and bonus, or over twice what a veterans' home loan would have cost him.

THIS BILL A LIFE-OR-DEATH SENTENCE FOR VETERANS LOANS

Because of this background of facts tnd experience, we are profoundly interested in S. 3066, for the outcome of your decision and that of the Senate will constitute practically a life-or-death sentence for the veterans' home-loan program throughout the greater part of this country. This is no exaggeration. You will put life into the program if you give FNMA sufficient funds to enable it to carry out the purpose and intent of the Congress in founding it, namely, to provide a supporting market for Government-guaranteed home loans when the primary market failed to absorb them. You made this by statute the sole and specific function of FNMA. And as every mortgage originator in the West can tell you today, FNMA is absolutely the only market we have for VA-guaranteed loans at anywhere near par.

On the other hand, certain sections of S. 3066 would, if approved by the House, constitute virtually a death sentence on the veterans' home-loan program in the South and West. We refer specifically to the sections of the bill which severely restrict the purchase by FNMA of VA loans not included within the narrow confines of critical defense housing officially programed by Housing and Home Finance Agency. It is high time, gentlemen, that someone from the grass roots told you a few blunt and unsavory facts about the arbitrary and capricious limitations placed by Housing and Home Finance Agency on veterans' home loans in critical defense areas. Take the city of Vallejo, Calif., if you please where defense housing is more imperatively needed than in any other coast city of which we know. You have the great Mare Island Navy Yard, the Benicia Arsenal, and the important Travis Air Base in or adjacent to Vallejo. A study recently made by the mayor and city council, the two chambers of commerce, and the commandant of Mare Island Navy Yard shows a shortage of over 5,000 housing units in Vallejo. The situation is so bad that the admiral commanding the navy yard has had mimeographed a statement given to all prospective employees warning them that there is absolutely no housing available in Vallejo. I am informed that the Government is losing many valuable employees each month because of this tragic lack of housing. (They are still using in Vallejo, by sheer necessity, those tattered old tar-paper emergency shacks erected only for the duration of the last world war.)

VETERANS LOANS REJECTED IN A CRITICAL DEFENSE AREA

Now, in the face of this need, the Housing and Home Finance Agency assigns only 600 housing units to the entire county in which Vallejo is located, of which only 42 have been started as of May 5, 1952, according to the report of the Administrator to the Senate Banking and Currency Committee (hearings, p. 20). We have a fine builder who has capital and character and a record of building many good homes in central California, who wanted to build several hundred low-cost homes for veterans in Vallejo. So he bought the land, submitted the plans and specifications to the regional VA office in San Francisco, and readily obtained its approval and the assurance of the guaranty of the resulting VA home loans for the job. But the Housing and Home Finance Agency does not recognize the certification of housing by the Veterans' Administration. In our section it works only through FHA, which refused to approve this badly needed housing on the absurd ground that there was a meat-packing plant (not a slaughterhouse) a couple of blocks distant on a main street. So Vallejo veterans lost several hundred urgently needed homes in a most critical defense area, for without Housing and Home Finance Agency approval and inclusion of these houses in its official program, the loans could not be bought by FNMA, which had earmarked all of its remaining funds solely for such programed housing.

We respectfully submit that when, after prolonged investigation, the President has designated a community as a critical defense area, FNMA should be authorized to purchase with its set-aside funds any Government-guaranteed housing loans in that area, whether or not they are blessed and "officially programed" by the Housing and Home Finance Agency. There is not too much, but too little housing in every one of these critical defense areas; and the housing program would be immeasurably aided by your simple grant of authority to FNMA to purchase any loans, whether guaranteed by VA or insured by FHA, offered to it from these defense areas.

NEED FOR HOUSING IN UNDESIGNATED DEFENSE AREAS

Secondly, there are many actually critical defense areas urgently in need of housing which, for reasons of local politics, have not been officially designated as such. We have in central California a thriving city growing so rapidly that decent low-cost housing is wanting. One of its industrial suburbs is actually growing at the rate of 20 percent or more a year. The Army recently gave a defense contract of more than $70,000,000 to one of the major plants of that city. Yet after a bitter political battle certain real-estate interests, fearful of public housing, blocked by a 3 to 2 vote of the city council an application to designate this as a critical defense area. But the need for low-cost housing is still there, regardless of designation. And thousands of veterans in that area would speedily avail themselves of VA home loans if we could find a market for them. Again, the only existing market for these veterans' home loans at anywhere near par is FNMA—providing you grant it the necessary funds.

You have already had called to your attention the fact that some 70 percent of all the housing officially programed for these critical defense areas is rental housing, and hence outside of the orbit of VA loans. It is agreed that a man who owns his own home is, on the whole, a more stable and desirable member of the community than is a renter. The liberal payments authorized by the Congress on VA home loans are in many cases less than rental payments would be. A broadening of the statute to empower FNMA to purchase any VA-guaranteed home loan from a critical defense area where the military authorities certify there is a shortage of housing, whether or not the VA loan is marked kosher by the imprimatur of Housing and Home Finance Agency's "official program," would go far to convert many of these veteran renters into home owners.

FALLACY IN THE "ONE-BY-ONE" AND "50 PERCENT" PROPOSALS

In view of the foregoing facts, we are shocked by two proposals made to this committee to hamstring the veterans' home-loan program by severely restricting or completely depriving the mortgage originator of the opportunity to sell veterans' home loans to FNMA. It is seriously proposed to amend section 301 (a) of the act (sec. 3 of the bill) by providing that henceforth FNMA shall issue what is virtually a commitment for the purchase of future mortgage loans to institutions which buy from it an equal amount of loans. We cannot believe that the proponent of this change in the law has given much thought to its deplorable consequences. For it would in effect cut the throat of the small mortgage originator,

and enable a few big financial institutions to gobble up in advance all of the funds which FNMA may have available for the purchase of veterans' home loans; and even worse, it will enable these same few institutions to get what is practically a first mortgage on future FNMA funds as they become available.

Such a proposal would patently favor the big investors in the financial centers of the country, where mortgage funds are now available, while withdrawing the aid of FNMA in the marketing of veterans' loans from the very sections where such aid is most direly needed. Instead of distributing the available mortgage funds geographically, which is the paramount need today, this proposal would work a still further concentration in the eastern financial centers where investment money is abundant.

To-day in the West VA loans cannot be sold for less than a 5 percent discount; while in New York and New England they can be sold at par. Could any well-informed man seriously claim that our right to sell Government-guaranteed loans to FNMA should be based upon our purchasing large blocks of these loans first from FNMA for resale at a 5 percent loss, especially since the processing fee which we are permitted by VA to charge on a veterans' home loan is strictly limited to 1 percent? The proposal reduces itself to an absurdity.

But it is proposed in the Senate bill (sec. 3 (a)) to put another halter around the necks of the small mortgage originators by limiting the amount of loans purchaseable by FNMA to 50 percent of the principal amount of insured or guaranteed nondefense loans made by him since March 1, 1952. You could just about count on your fingers the number of mortgage originators in the West who have been able to market any veterans' home loans during the past 3 months. Here, again, relief would be extended to big financial institutions in the East where mortgage funds now suffice, but would be denied to the very part of the country where mortgage money is most needed. Your attention is respectfully directed to the statement submitted to you by Mr. Alan E. Brockbank, president of the National Association of Home Builders (p. 2), in which he truly states:

> "The 50-percent limitation is unduly restrictive on smaller lenders in isolated areas who are most in need of FNMA facilities. It permits the larger lender, to whom private sources are available, quickly to build up a credit base against which he can sell to FNMA."

Not only in "isolated areas" but generally throughout the South and West the proposed change in the act would freeze out all but the largest mortgage originators. Instead of preventing "dumping" of loans into FNMA, this would encourage the large holders of VA loans to dump part of their portfolio into FNMA up to the 50-percent limit, while shutting the small mortgage originator out of the field. As Mr. T. B. King, Director of the Loan Guaranty Service of Veterans' Administration, has well said, in his testimony before the Senate Banking and Currency Committee on May 5, 1952:

> "In addition to a material weakening of 'Fanny May' support to the GI loan program, the application of a 50-percent limitation * * * would tend to hamper those lenders who have been most active in providing GI loans to veterans, and would favor those lenders who now enjoy a ready market for small home mortgage loans. * * *

The Congress, after carefully studying the need for encouraging the market for VA home loans, authorized FNMA in October 1949 (Public Law 387) to purchase eligible VA-guaranteed loans when it had money on hand to do so. Since that time there is not a scrap of evidence that this congressional directive has been abused. On the contrary, the VA home-loan market has sagged five points just because FNMA did not have sufficient funds to support it, as the Congress intended. The proposed change in the act now before you (sec. 3 (a)) not only is not required by experience, but would actually encourage dumping by the big investors while depriving the grass-roots mortgage originators of the one and only market at par they now have for VA loans. This proposed amendment would seriously injure the Veterans' home-loan program, and should be removed from the bill by your committee.

THE SHELL GAME OF UNLIMITED FEES

One other amendment to the bill should be deleted by this committee, since it gives the Housing Administrator unlimited power and authority to tax the originators of veterans loans out of existence. The Congress wisely adopted a provision in section 301 (a) (1) of the act limiting to 1 percent the "deposit or fee required or charged" by FNMA for purchasing mortgages. This salutary control has proved entirely satisfactory. Not one word of complaint has been

heard about it. And FNMA has made a handsome profit by the imposition of this limited charge in certain cases. But now it is proposed to change a satisfactory law by removing this limitation from the act, without placing any restraint or limit whatsoever on the charges to be made by FNMA. The proposal becomes clearly untenable in view of the strict regulation of Veterans' Administration limiting to 1 percent the processing fee that a mortgage originator can charge. (An additional fee may be charged for providing construction funds, but this is usually a commercial bank function.)

It may be said that the Administrator does not intend that FNMA will charge more than 1 percent on the purchase of VA loans, that he will only impose a higher charge on FHA-insured loans if purchased by FNMA. But the proposed amendment contained in section 3 (1) of the bill does not so provide. It virtually takes away from the Congress all control over the charges to be imposed by FNMA. We submit that this is too dangreous and destructive a power to be given without any restraint to the Administrator or any other official, no matter how eminent he may be. It puts the VA mortgage originator in the impossible position of having to guess how large a fee he may be charged by FNMA by the time a veteran's home loan is processed and ready for delivery. The amount of the fee could be changed by administrative order overnight. The originator of VA home loans is thus in a worse position than the yokel at the county fair trying to guess under which shell the pea is concealed; for if he guesses wrong, he would suffer the ruination of his business. This is an utterly unfair and unnecessary risk to impose on those who are striving to provide veterans with home loans.

THE SCARECROWS OF "INFLATION" AND "LOW INTEREST"

Your committee has heard only one voice raised against giving FNMA the additional funds it urgently requires in order to support the national defense housing program and to carry out in good faith the congressional intent for veterans' home loans. And that one voice had but one argument: The granting of any additional funds to FNMA would be "inflationary." In the same way the granting of funds by Congress for any purpose whatsoever, no matter how essential to the national welfare, would be "inflationary."

We have heard a lot of arrant nonsense about the inflationary effect of providing decent homes for the people of this country. We submit that when a young veteran and his wife sign an obligation to buy and pay for a home of their own, and save and sacrifice to do so, instead of spending their earnings on nonessentials the effect of their saving and investment is deflationary, and a decidedly wholesome factor in the national economy. It should also be noted that FNMA is one of the few agencies of the Federal Government which has consistently returned a profit to the Treasury on its operations. We could use more of that kind of "inflation."

We are also told that an "effective interest rate" would solve the problem of marketing VA home loans without any support from FNMA. At the moment 4 percent is an effective rate in New England because it brings out all needed mortgage money, whereas it is not adequate in the West, where a rapid population growth has created an unprecedented demand for new homes. One out of every five new houses in the Nation is today being built in California. The ultimate solution of this problem requires an improvement in the geographical distribution and availability of mortgage money. It may be that the establishment of a central mortgage bank will be required to do this, and to determine what interest rate is necessary to secure the amount of money needed for home financing. But this problem is not unique with veterans' home loans. It is the obvious result of the heavy concentration of investment capital in a few sections of the country, which are far distant from the sections where a majority of new homes are being built. One of the great benefits from a truly national home-loan program should be to make these investment funds available to all parts of the country, exactly as the stock-exchange system distributes investment funds where they are most needed, while maintaining a uniform price for listed securities by providing a national market.

FNMA SUPPORT FOR VETERANS' HOME LOANS ONLY TEMPORARY

Two years ago the 4 percent interest rate authorized for veterans' home loans was adequate to command a ready market for them in all parts of the country. Today 4 percent is not an attractive rate in most parts of the country. As Mr. San Neel stated to this committee: "The rates have fluctuated in this coun-

try's history up and down." No man can foretell with certainly what this trend in the future will be, though there are some encouraging signs on the horizon. Thus the savings banks, the savings and loan associations, and the life-insurance companies, which constitute the major market for all mortgage loans, are now experiencing the greatest investment income in the Nation's history. These funds cannot remain idle. They must be invested so as to pay savings depositors the interest agreed upon, and yield to the insurance companies the interest required by their actuarial table (usually 2½ percent).

At present a disproportionate amount of these investment funds is going into corporate securities, but that market will decline as the "tooling up" process of our national defense nears completion. The time may again came when these large institutional investors will be glad to get a Government-guaranteed 4 percent loan. But that time is not now. Meanwhile, it is virtually impossible for a veteran to get a home loan, as intended by acts of Congress, in most parts of the country. It is cold comfort to tell a veteran who needs a home now that he should wait a few years until interest rates again decline. When that time comes, the support of FNMA for the marketing of veterans' home loans will not be required. But we must live and act in the present; and if the Veterans' home-loan program as ordained and established by the Congress is to be saved, the only alternative to large-scale direct loans to the veterans by the Government, which none of us wants to see, is to provide FNMA with sufficient funds to carry out the purpose for which the Congress created it, namely, to give broad support to the market for Government-guaranteed home loans, without the crippling changes in the act hitched on to the present bill which are not in the interest of the veteran or the country.

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